Independent auditors' 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 2023 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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.

We have audited the financial statements, included within the Annual Report and Accounts 2023 (the 'Annual Report'), which comprise: the Consolidated and Company balance sheets as at 30 June 2023; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of changes in equity and the Consolidated statement of cash flows 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.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Company in the period under audit.

Our audit approach

Overview

Audit scope

- The Group is primarily UK-based and we have conducted audit work across all four of the Group's segments and achieved coverage over 98% (2022: 99%) of Group revenues.

Key audit matters

- Contract accounting (Group)
- Presentation of the Group's financial performance (Group)
- Impairment of goodwill (Group)
- Carrying value of investments in Group companies and recoverability of amounts owed by subsidiaries (Company).

Materiality

- Overall Group materiality: £11.8m (2022: £11.0m) based on 0.35% of total revenue.
- Overall Company materiality: £11.2m (2022: £9.9m) based on 1% of total assets limited by the application of component materiality.
- Performance materiality: £8.9m (2022: £8.3m) (Group) and £8.4m (2022: £7.4m) (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.

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.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Contract accounting (Group) Refer to page 108 (Risk Management and Audit Committee report) and page 179 (Accounting policy). The Group has significant long-term contracts in its Infrastructure Services and Construction businesses. The recognition of revenue in relation to construction contracts is in accordance with IFRS 15 where for the majority of contracts revenue is recognised over time. Where this is the case the measure of progress is based on the 'input method' which is based on the stage of completion of contract activity based on the actual costs incurred to date compared to the estimated forecast costs at completion. For other contract arrangements, including for cost plus and 'schedule of rates' contracts, revenue is recognised as costs are incurred and does not involve significant levels of estimation uncertainty. Contracts accounted for on a stage of completion basis involve estimation uncertainty as management are required to accurately forecast the costs to come for each project. They are also required to assess whether revenue recognised to date is highly probable of not reversing. Revenue recognition on contracts accounted for on a stage of completion basis is a significant risk for our audit due to the inherent uncertainty in preparing accurate 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 (including for any onerous contracts) recognised to date and, therefore, the current financial year. This is also the case in respect of the Group's long term maintenance contracts for the maintenance of Private Finance Initiative ('PFI') lifecycle assets. These estimates include the determination of the expected recovery of costs arising from, for example, 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 Group's accounting policy is to recognise additional contractual revenue from customers only when these amounts are considered highly probable of having no significant reversal. Amounts receivable from third parties (other than the Group's customers), suppliers or insurers are recognised only when they are determined to be 'virtually certain'.	Our work focused primarily on those contracts with the greatest estimation uncertainty over the final contract values and, therefore, profit or loss outcome. We selected a risk-based sample of contracts for our testing, based on both quantitative and qualitative risk criteria, including (for example): – contracts with high levels of revenue recognised in the year; – low margin or loss-making contracts; – contracts with significant work in progress balances and/or other balance sheet exposure; and; – contracts identified through our discussions with management, review of Board minutes, review of legal reports and review of publicly available information. Our audit procedures were then tailored according to the specific risk profile of each contract and included, but were not limited to, the following procedures: – Obtaining an understanding of the relevant contractual clauses and terms and conditions and agreed forecast revenue to signed contracts, signed variations, agreed compensation events or other corroborative and supporting documentation; – Challenging management's forecasts, in particular assessing the appropriateness of 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; – Challenging those assumptions in respect of estimated recoveries from subcontractors, designers, and insurers included in the forecasts, to determine whether these could be considered 'virtually certain' of recoverability; – Substantively testing a sample of actual costs incurred to date to ensure that these had been recorded accurately; – Performing a margin analysis on the end-of-life forecasts ('ELFs') to assess the performance of the contract portfolios year-on-year; – Assessing the forecast margin for the Group's PFI lifecycle contracts by testing the forecast cash flows supporting the recognition of these amounts; – Inspecting correspondence and meeting minutes with customers concerning variations, claims and compensation events, and reviewing third party assessments of these from legal or technical experts contracted by the Group, where applicable, to assess whether this information was consistent with the estimates made; – Reconciling revenue recognised with amounts applied for and amounts certified by clients and agreeing on a sample basis the amounts received to cash to ensure any reconciling items were appropriate; – Agreeing forecast costs to complete to supporting evidence (such as orders signed with subcontractors, performing look back testing and assessing the appropriateness of forecast run rates) and applying industry knowledge and experience to challenge the completeness and accuracy of the forecast costs to complete, including any cost contingencies held; – Attending certain contract review meetings virtually or via conference call, and inspecting minutes of meetings that considered value cost reconciliations ('VCRs') in order to understand the controls operated by management; – Reviewing the outcome of prior year forecasts against current year outcomes to assess management's judgements and forecasting accuracy; – Discussing the status of certain third-party claims with the Group's internal legal counsel, external solicitors and, where relevant, external experts, and assessing the objectivity and independence of these third parties; and – Inspecting correspondence with insurers relating to recognised insurance claims as well as assessments of these undertaken by the Group's external solicitors and other advisors, where applicable, to assess whether this information supported the financial position taken. This included assessing whether contract provisions included appropriate provision for remediation and other costs, where required.

Key audit matter	How our audit addressed the key audit matter
Contract accounting (Group) continued On the basis of the significant estimates, judgements and inherent uncertainty involved in determining the appropriate revenue recognition and associated profit, we have identified Contract Accounting as a Key Audit Matter and are particularly focused on the existence/occurrence and accuracy of revenue recognition.	For the residual contract population ('the tail'), we performed targeted risk-based procedures including, for example, testing costs to complete, material unagreed change, reviewing the contract forecast for unusual items and recalculating the percentage of completion. For all contracts selected for testing our work included: – Assessing the impact of other identified risks including the impact of the current inflationary environment and the associated impact on the forecast cost at completion; – Assessing whether any material contracts exhibited heightened risk associated with climate change that needed reflecting in the end of life forecast; – Considering 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; – Considering any significant write-offs of contract assets during the year and obtaining evidence to demonstrate that the write-offs were driven by events during the 2023 financial year. Based on all of the evidence obtained from the above procedures, we concluded on the appropriateness of the recognition of contract revenues and profits/losses and of the amounts held as contract assets and liabilities. Given the degree of estimation, we also reviewed the disclosures regarding significant ongoing contracts included in note 1 to the financial statements.

Presentation of the Group's financial performance (Group)
Refer to page 108 (Risk Management and Audit Committee report) and page 181 (Accounting policy).
 	
Consistent with the prior year, the Directors present in note 5 to the accounts, the Group's principal Alternative Performance Measure as 'Adjusted Operating Profit' such that the Group's APM is consistent with how management reviews the performance of the business.
 	
The Group's adjusted profit from operations of £131.5m is stated after charging:
– £19.2m of amortisation of acquired intangibles;
– £13.0m of restructuring and related charges; and
– £17.8m of other adjusting items.
 	
The determination of which items are treated as 'adjusting' is judgemental and needs to be consistent with how the Directors review the segmental performance of the business. Users of the financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistent with the way in which the Board is reviewing segmental performance.
	We considered whether the presentation of Adjusted Operating Profit is appropriate. In doing this we performed the following procedures:
	– We obtained the latest internal Board reporting to evaluate whether the nature and quantum of the adjustments presented, for the Group and in respect of the segments, was consistent with those highlighted and adjusted in the financial statements;
	– We ensured that the Group's APMs were appropriately reconciled to the relevant statutory measures;
	– We reviewed the definition and classification of adjusting items in the Group's Annual Report, including the sub-categorisation of these items. In particular:
	  – We challenged whether immaterial items, for example redundancy costs and costs incurred resizing the international operations, were adjusting in line with the Group's accounting policy. We accepted the treatment on the basis that these items are excluded in the results reported to and reviewed by the Board (the Group's Chief Operating Decision Maker) and the costs are not dissimilar to those that are often excluded from headline profits. We also assessed whether income arising from any one-off transactions, including within the Property segment, should be considered as adjusting items;
	  – We tested the completeness and accuracy of the £12.6m of fire and cladding costs recorded as adjusting items to ensure there was sufficient evidence to support the positions taken and that their classification as adjusting items was appropriate. Where any economic outflow was not considered probable we ensured that sufficient contingent liability disclosure was included in the accounts; and
	  – We reviewed management's APM disclosures and ensured that sufficient disclosure was provided to justify why individual items were treated as adjusting.
	
	Overall based on these procedures we were satisfied with the presentation of the Group's profit before adjusting items, and that the reasons for the use of these APMs have been appropriately disclosed. We also considered whether there was appropriate balance in the Group's Annual Report between references to adjusted profit measures and the Group's statutory profit and were satisfied that this was the case.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill (Group) Refer to page 108 (Risk Management and Audit Committee report) and page 180 (Accounting policy). The Group has £536.7m of goodwill on its balance sheet at 30 June 2023 of which £516.3m related to the Infrastructure Services segment and £20.4m related to the Construction segment. The audit of goodwill was a focus area given the value of the Group's assets in comparison to its market capitalisation. The carrying value of goodwill is required to be supported by the higher of future cash flows (value in use) or the fair value less cost to sell. There is a risk that the assets will be impaired if the cash flows do not meet the Group's forecast projections. The impairment reviews performed by the Group contain a number of estimates including discount rates, long-term growth rates and expected changes to revenue and operating margins during the forecast periods. Changes in these assumptions could lead to an impairment to the carrying value of the assets. We determined there to be a significant audit risk that the carrying value of goodwill allocated to Infrastructure Services may not be supportable when compared to its recoverable amount. The headroom in management's assessment is £166.3m (2022: £153.0m).	In evaluating the Directors' annual impairment assessment for goodwill in respect of Infrastructure Services, we performed the following procedures: – We tested the integrity of management's model and assessed the allocation of goodwill and acquired intangibles, and considered the Directors' conclusion that the significant majority of goodwill related to the Infrastructure Services segment and that this represented the lowest level at which goodwill is monitored for internal management purposes; – We evaluated whether the basis of allocation of corporate assets and central costs was reasonable; – We obtained the Board-approved three year 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 certain contracts in the Group's order book to provide evidence of the associated revenue forecast in the cash flow model; – We challenged management's forecasts and compared future cash flow performance to historic levels, as well as to industry forecasts as part of our assessment as to whether the planned performance was considered achievable; – We challenged the assumption within the forecasts that the business's cash flows would be earned into perpetuity, including considering whether the impact of climate change posed a risk to the Group's long-term operations and associated impairment assessments; – We challenged management's assumptions in respect of inflation and how the potential impact of climate change had been reflected in future cash flows; – We tested the discount rate and long-term growth rate applied with the support of our internal valuation experts; and – We sensitised key assumptions including, the short-term and long-term growth rates applied to revenue, forecast operating profits and margins, the discount rate and established the impact of reasonably possible changes in these assumptions; we then ensured that these sensitivities were appropriately disclosed in accordance with IAS 36, 'Impairment of assets'. Based on the procedures performed, we were satisfied that no impairment of goodwill allocated to Infrastructure Services was required, and that the associated disclosures included in the financial statements were appropriate.
Carrying value of investments in Group companies and recoverability of amounts owed by subsidiaries (Company) Refer to page 109 (Risk Management and Audit Committee report) and page 240 (Company notes to the financial statements). The Company holds investments in subsidiaries of £446.2m (2022: £437.8m), the largest of which is in Kier Limited of £415.5m (2022: £415.5m) and net amounts owed by subsidiary undertakings of £1,469.4m (2022: £1,291.8m). We focused on these areas due to the magnitude of the investments in, and net amounts owed by, subsidiary undertakings, when for example compared to the Group's market capitalisation (which remains below the carrying value of the investments in subsidiaries). The Directors' assessment of the carrying value of investments was that no impairment was required. Similarly, all amounts owed by subsidiary undertakings were assessed as being recoverable.	We reviewed the Directors' impairment assessment of the carrying value of the investment in Kier Limited and net amounts owed by subsidiary undertakings. In respect of the investment in Kier Limited, we agreed the forecast cash flows used in this assessment to the forecasts used in the assessment of impairment of goodwill and other intangible assets. Our work performed on those cash flows is set out in the Goodwill Key Audit Matter above. We verified that the amounts owed by subsidiary undertakings were recoverable based on counterparty cash balances and/or expected future cash flows. As a result of these procedures, we were satisfied with the Directors' conclusion that no impairment was required against the carrying value of the investments in subsidiaries or the net amounts owed by subsidiary undertakings.

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 are structured into four segments represented by Infrastructure Services, Construction, Property and Corporate. The Group audit partner, supported by other UK engagement leaders, led UK-based teams responsible for the audit of each of these segments. The four segments include a number of reporting units in the Group's consolidation, each of which is considered to be a financial component.

Except for inconsequential revenue in Kier International, the Group's operations are entirely within the UK. Our audit approach was designed to obtain coverage over 98% of the Group's revenue. 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.

The impact of climate risk on our audit

As part of our audit we made enquiries with management to understand the extent of the potential impact of climate change risk on the Group's financial statements. Management concluded that there was no material impact on the financial statements. Our evaluation of this conclusion included challenging key judgements and estimates in areas where we considered that there was greatest potential for climate change impact. We particularly considered how climate change risks (and opportunities) could impact the assumptions made in areas such as goodwill impairment, recoverability of contract assets (see key audit matters above) and the valuation of investment property. We also considered the consistency of the disclosures in relation to climate change in the other information within the Annual Report with that of the financial statements and our knowledge from our audit.

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:

	Financial statements – group	Financial statements – company
Overall materiality	£11.8m (2022: £11.0m).	£11.2m (2022: £9.9m).
How we determined it	0.35% of total revenue	1% of total assets limited by the application of component materiality
Rationale for benchmark applied	We considered different benchmarks based on a number of profit measures and revenue, taking into account the fluctuating performance of the business over the last few years and the overall scale of the business. This gave us a range within which to determine materiality. Based on our professional judgement, we concluded that an amount of £11.8m was appropriate, representing 0.35% of the Group's revenue.	The Company primarily holds intercompany receivables, investments in subsidiaries and debt. Accordingly we considered that total assets is the primary measure for shareholders when assessing the financial statements of the ultimate holding Company of the Group.

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 £0.8m and £11.0m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2022: 75%) of overall materiality, amounting to £8.9m (2022: £8.3m) for the Group financial statements and £8.4m (2022: £7.4m) for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Risk Management and Audit Committee that we would report to them misstatements identified during our audit above £0.6m (Group audit) (2022: £0.6m) and £0.6m (Company audit) (2022: £0.6m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's going concern paper to ensure it was based upon the latest Board approved forecasts and that the cash flow assumptions were consistent with our understanding of the outlook for the Group's businesses and the wider market;
- Testing, on a sample basis, significant contracts in the Group's pipeline to obtain evidence in support of the revenue forecasts in the going concern model;
- Performing sensitivity analysis over management's forecasts, including with respect to the current inflationary and interest rate environment, in order to determine whether under severe but plausible scenarios the Group's peak debt could exceed its lending limits and/or the Group could breach covenant limits. This included consideration as to whether management has mitigating actions available to it, and within its control, to prevent such a situation occurring;
- Comparing the prior year forecasts against current year actual performance to assess management's ability to forecast accurately;
- Reviewing management's covenant calculations, covering the period from 30 June 2023 to 31 December 2024, ensuring that the covenant thresholds and definitions were consistent with the financing agreements;
- Inspecting lending limits and availability of finance, ensuring that the accounting for these arrangements is appropriate, and;
- Holding discussions with management to understand the plans for and progress in relation to the refinance of the Group's revolving credit facility which expires on 31 January 2025, outside of the formal going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least 12 months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

In relation to the Directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this 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, which includes reporting based on the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. 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 our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

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 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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.

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.

Corporate governance statement
The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

– The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
– The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
– The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
– The Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
– The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group and Company was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

– The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
– The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
– The section of the Annual Report describing the work of the Risk Management and Audit Committee.

We have nothing to report in respect of our responsibility to report when 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.

Responsibilities for the financial statements and the audit
Responsibilities of the directors for the financial statements
As explained more fully in the Statement of directors' responsibilities, 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.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK pensions and employment legislation, data protection legislation, the Health and Safety Executive legislation and equivalent local laws, Fire Safety Act 2021, anti-bribery and corruption legislation, environmental legislation, construction laws and regulations applicable to overseas operations, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006, Listing Rules and tax legislation. 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 and management bias in long-term contracting accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included:

- Discussions with management, Internal Audit and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of matters reported to the Board, including those raised through the Group's whistleblowing helpline;
- Review of external press releases;
- Challenging assumptions and judgements made by management in the estimates involved in accounting for long-term contracts, and where applicable inspecting correspondence with external advisors; and
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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 auditors' 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 obtained 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 members 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 9 years, covering the years ended 30 June 2015 to 30 June 2023.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

Andrew Paynter
(Senior Statutory Auditor)
for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants
and Statutory Auditors
London

13 September 2023

Consolidated income statement

For the year ended 30 June 2023

	Note	2023 £m	2022 £m
Continuing operations			
Revenue	2		
Group and share of joint ventures[1]	3	**3,405.4**	3,256.5
Less share of joint ventures	3	**(24.7)**	(112.6)
Group revenue		**3,380.7**	3,143.9
Cost of sales		**(3,074.4)**	(2,879.9)
Gross profit		**306.3**	264.0
Administrative expenses		**(240.0)**	(245.5)
Share of post-tax results of joint ventures	16	**1.1**	26.6
Other income	6	**14.1**	–
Profit from operations	3, 4	**81.5**	45.1
Finance income	7	**9.4**	0.7
Finance costs	7	**(39.0)**	(29.9)
Profit before tax	3	**51.9**	15.9
Taxation	10	**(10.9)**	(3.2)
Profit for the year	3	**41.0**	12.7
Attributable to:			
Owners of the parent		**41.1**	12.7
Non-controlling interests		**(0.1)**	–
		41.0	12.7
Total earnings per share			
– Basic	12	**9.5p**	2.9p
– Diluted	12	**9.3p**	2.8p

	Note	2023 £m	2022 £m
Supplementary information from continuing operations			
Adjusted[2] operating profit	5	**131.5**	120.5
Adjusted[2] profit before tax	5	**104.8**	94.1
Adjusted[2] basic earnings per share	12	**19.2p**	16.8p
Adjusted[2] diluted earnings per share	12	**18.8p**	16.4p

1. Group revenue including joint ventures is an alternative performance measure, see page 243.
2. Reference to 'adjusted' excludes adjusting items, see notes 1 and 5. These are alternative performance measures, see page 243.

Consolidated statement of comprehensive income

For the year ended 30 June 2023

	Note	2023 £m	2022 £m
Profit for the year		**41.0**	12.7
Items that may be reclassified subsequently to the income statement			
Fair value movements on cash flow hedging instruments		**2.1**	6.4
Fair value movements on cash flow hedging instruments recycled to the income statement	7	**1.2**	(7.4)
Deferred tax on fair value movements on cash flow hedging instruments	10	**(0.8)**	0.2
Foreign exchange translation differences		**0.3**	3.9
Total items that may be reclassified subsequently to the income statement		**2.8**	3.1
Items that will not be reclassified to the income statement			
Re-measurement of retirement benefit assets and obligations	9	**(107.8)**	136.3
Tax on re-measurement of retirement benefit assets and obligations	10	**26.5**	(34.7)
Total items that will not be reclassified to the income statement		**(81.3)**	101.6
Other comprehensive (loss)/income for the year		**(78.5)**	104.7
Total comprehensive (loss)/income for the year		**(37.5)**	117.4
Attributable to:			
Equity holders of the parent		**(37.4)**	117.4
Non-controlling interests		**(0.1)**	–
		(37.5)	117.4

Consolidated statement of changes in equity

For the year ended 30 June 2023

	Note	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated losses £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 2021		4.5	684.3	2.7	(610.8)	(0.1)	5.0	350.6	436.2	(1.2)	435.0
Profit for the year		–	–	–	12.7	–	–	–	12.7	–	12.7
Other comprehensive income/(loss)		–	–	–	101.6	(0.8)	3.9	–	104.7	–	104.7
Total comprehensive income/(loss) for the year		–	–	–	114.3	(0.8)	3.9	–	117.4	–	117.4
Issue of own shares		–	–	–	–	–	–	–	–	0.6	0.6
Share-based payments	27	–	–	–	8.6	–	–	–	8.6	–	8.6
Purchase of own shares	27	–	–	–	(7.0)	–	–	–	(7.0)	–	(7.0)
At 30 June 2022		4.5	684.3	2.7	(494.9)	(0.9)	8.9	350.6	555.2	(0.6)	554.6
Profit/(loss) for the year		–	–	–	**41.1**	–	–	–	**41.1**	**(0.1)**	**41.0**
Other comprehensive (loss)/income		–	–	–	**(81.3)**	**2.5**	**0.3**	–	**(78.5)**	–	**(78.5)**
Total comprehensive (loss)/income for the year		–	–	–	**(40.2)**	**2.5**	**0.3**	–	**(37.4)**	**(0.1)**	**(37.5)**
Issue of own shares		–	–	–	–	–	–	–	–	**0.3**	**0.3**
Changes in ownership of subsidiary		–	–	–	**(0.9)**	–	–	–	**(0.9)**	–	**(0.9)**
Share-based payments	27	–	–	–	**8.4**	–	–	–	**8.4**	–	**8.4**
Purchase of own shares	27	–	–	–	**(11.9)**	–	–	–	**(11.9)**	–	**(11.9)**
At 30 June 2023		**4.5**	**684.3**	**2.7**	**(539.5)**	**1.6**	**9.2**	**350.6**	**513.4**	**(0.4)**	**513.0**

The numbers in the table above are shown net of tax as applicable.

Consolidated balance sheet

As at 30 June 2023

	Note	2023 £m	2022 £m
Non-current assets			
Intangible assets	13	**645.0**	669.1
Property, plant and equipment	14	**29.8**	32.7
Right-of-use assets	23	**105.4**	80.6
Investment properties	15	**98.4**	60.4
Investments in and loans to joint ventures	16	**78.6**	82.3
Capitalised mobilisation costs	17	**6.3**	11.6
Deferred tax assets	18	**128.8**	108.8
Contract assets	19	**43.7**	31.2
Trade and other receivables	20	**18.5**	17.0
Retirement benefit assets	9	**129.3**	199.2
Other financial assets	29	**9.7**	8.5
Non-current assets		**1,293.5**	1,301.4
Current assets			
Inventories	21	**72.9**	56.8
Contract assets	19	**358.2**	366.3
Trade and other receivables	20	**189.2**	202.9
Corporation tax receivable		**13.4**	10.0
Other financial assets	29	**1.0**	3.7
Cash and cash equivalents	22	**376.9**	297.7
Current assets		**1,011.6**	937.4
Total assets		**2,305.1**	2,238.8
Current liabilities			
Borrowings	22	**–**	(40.5)
Lease liabilities	23	**(36.2)**	(25.9)
Trade and other payables	24	**(1,075.0)**	(1,065.7)
Contract liabilities	19	**(90.5)**	(67.3)
Provisions	25	**(38.2)**	(22.2)
Current liabilities		**(1,239.9)**	(1,221.6)

	Note	2023 £m	2022 £m
Non-current liabilities			
Borrowings	22	**(319.1)**	(266.5)
Lease liabilities	23	**(146.4)**	(131.7)
Trade and other payables	24	**(36.9)**	(34.1)
Retirement benefit obligations	9	**(24.8)**	(4.5)
Provisions	25	**(25.0)**	(25.8)
Non-current liabilities		**(552.2)**	(462.6)
Total liabilities		**(1,792.1)**	(1,684.2)
Net assets	3	**513.0**	554.6
Equity			
Share capital	26	**4.5**	4.5
Share premium		**684.3**	684.3
Capital redemption reserve		**2.7**	2.7
Accumulated losses		**(539.5)**	(494.9)
Cash flow hedge reserve	26	**1.6**	(0.9)
Translation reserve	26	**9.2**	8.9
Merger reserve	26	**350.6**	350.6
Equity attributable to owners of the parent		**513.4**	555.2
Non-controlling interests		**(0.4)**	(0.6)
Total equity		**513.0**	554.6

The financial statements of Kier Group plc, company registration number 2708030, on pages 166–241 were approved by the Board of Directors on 13 September 2023 and were signed on its behalf by:

Andrew Davies
Chief Executive

Simon Kesterton
Chief Financial Officer

Consolidated statement of cash flows

For the year ended 30 June 2023

	Note	2023 £m	2022 £m
Cash flows from operating activities			
Profit before tax		**51.9**	15.9
Net finance cost	7	**29.6**	29.2
Share of post-tax trading results of joint ventures	16	**(1.1)**	(26.6)
Pension cost charge/(credit)	9	**0.1**	(0.4)
Equity-settled share-based payments charge	27	**8.4**	8.6
Amortisation and impairment of intangible assets and mobilisation costs	13,17	**33.9**	30.3
Change in fair value of investment properties	15	**(11.4)**	(0.2)
Research and development expenditure credit	10	**(22.8)**	(20.7)
Depreciation and impairment of property, plant and equipment	14	**6.1**	10.7
Depreciation and impairment of right-of-use assets	23	**43.7**	35.2
(Profit)/loss on disposal of property, plant and equipment and intangible assets		**(1.8)**	0.8
Operating cash inflows before movements in working capital and pension deficit contributions		**136.6**	82.8
Deficit contributions to pension funds	9	**(9.9)**	(10.8)
Increase in inventories	22	**(18.8)**	(2.1)
Decrease in receivables	20	**12.2**	7.3
Increase in contract assets	22	**(4.4)**	(31.6)
Increase/(decrease) in payables	22	**26.1**	(12.4)
Increase in contract liabilities	19	**23.2**	7.4
Increase in provisions	25	**15.2**	0.2
Cash inflow from operating activities		**180.2**	40.8
Dividends received from joint ventures	16	**1.8**	32.5
Interest received	7	**1.6**	0.7
Income tax paid		**(0.1)**	–
Net cash inflow from operating activities		**183.5**	74.0

	Note	2023 £m	2022 £m
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**2.6**	4.2
Purchase of property, plant and equipment	14	**(3.9)**	(6.0)
Purchase of intangible assets	13	**(2.7)**	(0.7)
Purchase of capitalised mobilisation costs	17	**(1.8)**	(10.2)
Acquisition of joint venture debt	16	**(0.9)**	–
Investment in joint ventures	16	**(35.7)**	(16.8)
Loan repayment and return of equity from joint ventures	16	**17.1**	27.5
Net cash used in investing activities		**(25.3)**	(2.0)
Cash flows from financing activities			
Issue of shares net of associated transaction costs		**–**	(6.1)
Issue of shares to non-controlling interest		**0.3**	0.6
Purchase of own shares	27	**(11.9)**	(7.0)
Interest paid		**(39.5)**	(28.8)
Principal elements of lease payments	23	**(45.6)**	(33.8)
Drawdown of borrowings	22	**56.8**	–
Repayment of borrowings	22	**(43.2)**	(101.8)
Settlement of derivative financial instruments		**4.7**	7.5
Changes in ownership interests of subsidiaries		**(0.9)**	–
Net cash used in financing activities		**(79.3)**	(169.4)
Increase/(decrease) in cash and cash equivalents		**78.9**	(97.4)
Effect of change in foreign exchange rates		**0.3**	3.9
Opening cash and cash equivalents		**297.7**	391.2
Closing cash and cash equivalents	22	**376.9**	297.7
Supplementary information			
Adjusted cash inflow from operating activities	5	**207.2**	82.0

1. Reference to 'adjusted' excludes adjusting items, see notes 1 and 5. This is an alternative performance measure, see page 243.

Notes to the consolidated financial statements

For the year ended 30 June 2023

1 Significant accounting policies

Kier Group plc (the 'Company') is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The Company's registered number is 2708030. The consolidated financial statements of the Company for the year ended 30 June 2023 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 13 September 2023.

Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards effective for accounting periods beginning on or after 1 July 2022 and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 236–241.

Basis of preparation

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for investment properties, defined benefit pension plans and derivative financial instruments which are stated at their fair value, and the IFRS 2 share-based payments charge which is based on the fair value of the options granted.

Kier Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 2nd Floor, Optimum House, Clippers Quay, Salford, England, M50 3XP.

The following new amendments to standards are effective for the financial year ended 30 June 2023 onwards:

– Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (published May 2020).

None of the above amendments to standards has had a material effect on the Group's financial statements for the current period nor is expected to do so for future periods. 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 17 'Insurance Contracts'
– Amendments to IAS 1 'Presentation of Financial Statements' on classification of liabilities
– Narrow-scope amendments to IAS 1, Practice statement 2 and IAS 8 (published February 2021)
– Amendments to IAS 12 'Income Taxes' on deferred tax related to assets and liabilities arising from a single transaction and international tax reform (pillar two model rules)
– Amendments to IFRS 16 'Leases' in relation to the lease liability in a sale and leaseback
– Amendments to IAS 7 & IFRS 7 (not yet UK adopted) on supplier finance arrangements.

IFRS 17 will replace IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by entities that issue insurance contracts. The new standard will first be applied by the Group in the accounting year ended 30 June 2024. Whilst the Group does have its own captive insurance company, Tempsford Insurance Company Limited, this company does not issue insurance contracts to parties outside of the Group and therefore the Group has concluded that this arrangement will not have a material impact on the Group's consolidated financial statements. However, the widely drawn definition of an insurance contract means that a number of relatively common contracts entered into by non-insurers may be considered to be insurance contracts, even if they are not typically thought of in those terms. Some contracts that provide a service for a fixed fee may meet the definition of an insurance contract, where the level of service provided depends on uncertain future events (for example, reactive repair and maintenance services). The Group has reviewed its fixed fee service contracts and determined that there would be no material effect on the Group's financial statements under IFRS 17.

No significant net impact from the adoption of the above amendments to standards is expected. The Group has chosen not to adopt any of the above standards or amendments earlier than required.

Going concern

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

The Group performed well through the year ended 30 June 2023 and produced results in line with the Board's expectations.

The Group continues to win new, high-quality and profitable business in its markets on terms and at rates which reflect the new bidding disciplines and risk management practices introduced under the Group's Performance Excellence programme. At 30 June 2023, the order book was £10.1bn (2022: £9.8bn).

As at 30 June 2023, the Group had £569.4m of unsecured committed facilities and £18.0m of uncommitted overdrafts. During the year the Group repaid the final amount of £49.8m of uncommitted supply chain financing facilities ('KEPS') and as at 30 June 2023 the Group had no outstanding invoices on these facilities.

1 Significant accounting policies continued

Financial covenant certificates for June 2023 have been prepared with no breaches noted. The Directors have reviewed the Group's cash flow forecasts for the period to 31 December 2024, 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 scenarios included the consideration of risks which may arise to the Group's available liquidity and its ongoing compliance with financial covenants within the Group's principal debt facilities as a result of or in light of the following factors or circumstances:
– Potential reductions in trading volumes;
– Potential future challenges in respect of ongoing projects;
– Project inflation and subcontractor insolvency;
– Reduced investment/delays in Property transactions and cost of adoption of green legislation;
– Plausible changes in the interest rate environment; and
– The availability of mitigating actions that could be taken by management in such a scenario.

During the year there has been a significant increase in bank base rates which directly impacts the cost of the Revolving Credit Facility ('RCF'). Rates have increased from 1.0% at June 2022 to 5.0% at June 2023. Inflation has remained higher than expected which could potentially put further upward pressure on interest rates. The increase in interest rates has, however, been partly mitigated by entering into fixed rate swaps at advantageous rates.

The RCF facility extends to 31 January 2025. Working with lenders and its advisors, the Board is confident in the Group's ability to access a number of available funding markets to achieve an appropriate capital structure to support the Group's strategic objectives; and would expect to complete a refinancing in the current financial year.

The Board also considered the macroeconomic and political risks affecting the UK economy, including the availability of labour and inflationary pressures leading to increased supply chain costs. 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 infrastructure, health, education and utilities, which are considered likely to remain largely unaffected by macroeconomic factors. Although inflationary pressures remain a risk, both in the supply chain and the labour market, this is partly mitigated by c.60% of contracts being target cost or cost plus.

The Board has also considered the potential impact of climate change and does not consider the Group's operations are at risk from physical climate-related risks such as hurricanes and temperature changes in the short term. In the medium term the Board has concluded that any adverse financial impacts from required changes to operations in line with ESG requirements will be offset by opportunities which present the Group with additional volumes and profits, such as replacement of non-sustainable buildings, construction of new 'clean' power plants and 'green' building conversions. As such, the longevity of the Group's business model means that climate change has no material adverse impact on going concern.

Having reviewed the Group's cash flow forecasts, the Directors consider that the Group is expected to continue to have available liquidity headroom under its finance facilities and operate within its financial covenants over the going concern period, including in a severe but plausible downside scenario.

As a result, the Directors are satisfied that the Group has adequate resources to meet its obligations as they fall due for a period of at least 12 months from the date of approving these financial statements and, for this reason, they continue to adopt the going concern basis in preparing these financial statements.

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 2023. 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 monetary 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.

The general principles for revenue and profit recognition across the Group are as follows:

- Provision is made for any unavoidable future net losses arising from contract obligations, as soon as they become apparent. These are accounted for under IAS 37 and are shown as onerous contract provisions in note 25;
- 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 it is highly probable that a significant reversal of the amount in cumulative revenue recognised will not occur;
- 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;
- Where revenue that has been recognised is subsequently determined not to be recoverable due to the inability of a customer to meet its payment obligations, these amounts are charged to administrative expenses as a credit loss;
- 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.

1 Significant accounting policies continued

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, where the payment terms are to provide the customer with protection from Kier failing to adequately complete some or all of its obligations under the contract.

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, is 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, and those services are distinct, 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) 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 for recognition of revenue on construction contracts (see above).

Where consideration is paid in advance of the development's construction phase at a price less than market value, revenue is recognised on a discounted basis to reflect a financing component of the transaction. This revenue and forward funded interest unwinds as the construction takes place.

(d) 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 above).

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.

Alternative performance measures
IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance. The Directors have considered the requirements of applicable accounting standards, along with additional guidance around alternative performance measures ('APMs') and believe it is appropriate to inform users regarding various items and disclose those items which are deemed one-off, material or non-recurring in size or nature, in alignment with the Group's internal management reporting.

As such, the Group is disclosing as supplementary information an 'Adjusted Profit' APM which is reconciled to statutory profit in the notes to the financial statements and is consistent with IFRS 8 segmental reporting.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items. The Directors review segmental results under an adjusted items basis to analyse the performance of operating segments.

The Directors exercise judgement in determining the classification of certain items as adjusting using quantitative and qualitative factors. In assessing whether an item is an adjusting item, the Directors give consideration, both individually and collectively, as to an item's 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.

Amortisation of acquired intangible assets and certain financing costs are also included as adjusting items on the basis of being ongoing non-cash items generated from acquisition-related activity.

A full reconciliation from statutory numbers to adjusted profit measures has been presented in note 5.

The Group presents revenue including from joint venture arrangements as an alternative performance measure. The Directors believe this is a useful measure as it provides visibility over the scale of the Group's operations, particularly within its Property business where a significant proportion of developments are set up in joint ventures.

The Group also presents adjusted cash flow from operations, free cash flow and net debt as alternative performance measures. The Directors consider that these provide useful information about the Group's liquidity and debt profile.

A glossary of alternative performance measures is included on page 243.

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. Interest receivable is presented within operating cash flows in the cash flow statement.

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.

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 or where other temporary differences are available.

The Group participates in the UK Government's Research and Development Expenditure Credit ('RDEC') tax incentive scheme. Credits receivable under the RDEC scheme are recognised within operating profit and are treated as taxable income. Amounts receivable in respect of RDEC claims are included on the balance sheet within the corporation tax receivable balance or as a reduction in the corporation tax payable balance, as appropriate.

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.

1 Significant accounting policies continued

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

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.

Software as a service

Costs incurred relating to software as a service ('SaaS') that provide future benefit to the Group are included within prepayments and written off over the period to which they relate. All other costs in respect of SaaS are expensed to the income statement as incurred.

Property, plant and equipment and depreciation

The cost of an acquired asset comprises the purchase price, any directly attributable costs and the estimated costs of dismantling and removing the item at the end of its life. 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:

Land and buildings	25–50 years or period of lease
Plant and equipment	3–12 years

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:
- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Most Group companies do not have any recent independent third-party financing to use as a starting point for the incremental borrowing rate. Therefore, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, lease term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:
- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Any restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Group has elected to use the following recognition exemptions, as permitted by the standard:
- Leases of low-value items – The Group has defined low-value items as assets that have a value when new of less than c.£5,000. Low-value items comprise IT equipment and small items of plant.
- Short-term leases – Leases with a lease term of less than 12 months at inception.

For leases in the above categories, a lease liability or right-of-use asset is not recognised. Instead, the Group recognises the related lease payments as an expense on a straight-line basis over the lease term.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Leased properties that meet the definition of investment properties are presented within 'investment properties' rather than 'right-of-use assets' on the balance sheet.

The Group enters into lease agreements as a lessor with respect to its investment properties. Leases for which the Group is a lessor are classified as finance or operating leases.

Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortised cost (i.e. after a deduction of the loss allowance).

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Investment properties

Investment properties, principally office buildings and land, are held for the purpose of earning rentals and/or for capital appreciation and are not occupied by the Group. Investment properties are measured using the fair value model. Gains and losses arising from a change in the fair value of investment properties are recognised in the income statement in the period in which they arise.

Rental income and costs in respect of investment properties are included within administrative expenses and are disclosed in note 15(b). Where the investment property has come about through vacating corporate offices following the restructure of the Group's property portfolio, amounts in the income statement are treated as adjusting items.

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 commitment to purchase the land is made, generally at 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.

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.

Contract assets are reduced by appropriate allowances for expected credit losses calculated using the simplified approach (as with trade receivables).

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.

The Group has allocated contract assets and liabilities due within 12 months of the balance sheet date to current with the remainder included in non-current.

1 Significant accounting policies continued

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.

Merger reserve

Where equity raises are effected through a structure which is eligible for merger relief under section 612 of the Companies Act 2006, the Group transfers the excess of the net proceeds over the nominal value of the share capital issued to the merger reserve.

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 that the Group has the unconditional right to realise.

(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 applies to the Sharesave, Conditional Share Award Plan 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. Awards that are subject to a post-vesting holding period are valued using the Finnerty 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.

The Group applies the simplified approach to measurement of expected credit losses in respect of trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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 cash flows. 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, the Group 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 the Group with interest accrued for any late payments.

(b) 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 (to reflect the substance of cash pooling arrangements).

(c) 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.

(d) 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.

(e) Derivative financial instruments

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 portion of changes in the fair value of these derivatives is recognised in the cash flow hedge reserve within equity. 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.

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. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

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. The fair values of derivative instruments 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 the balance sheet date.

Significant accounting estimates and critical judgements

Management considers that their use of estimates, assumptions and judgements in the application of the Group's accounting policies are inter-related and therefore discuss them together below with the major sources of estimation uncertainty and significant judgements separately identified:

(a) Revenue and profit recognition

The estimation techniques used for revenue and profit recognition in respect of property development, 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, programme of works, maintenance and defect obligations and changes in costs. The estimates and judgements in respect of construction contracts are considered to be critical.

There are a small number of contracts that the Group considers require significant accounting estimates and, as at 30 June 2023, the Group has included estimated recoveries from customers and other third parties with a combined value of £74.0m (2022: £76.6m). These recoveries are recognised in line with the Group's stated accounting policies. However, estimation uncertainty exists and there are a number of factors which will affect the final outcome once these contracts are finalised. The Group estimates that the final outcome on these contracts could collectively range from an upside of £82.8m (2022: £42.1m) to a downside, including the risk of counterclaims being levied against the Group, of £47.0m (2022: £40.1m).

Over 400 construction contracts (2022: over 500) were income generating during the year within the Group's Construction and Infrastructure Services operating divisions. Of these, three (2022: none) individually had a material impact on operating profit.

1 Significant accounting policies continued

The key judgements and estimates relating to determining the revenue and profit of material contracts are:
- costs to complete;
- achieving the planned build programme; and
- recoverability of claims and variations in accordance with IFRS 15.

Each contract is treated on its merit and is 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 accounting position papers for the contracts that have a material impact on the income statement.

The level of estimation uncertainty in the Group's construction businesses 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 the majority of the Group's projects. Nevertheless, the profit recognition in the Construction business is a critical estimate, due to the inherent uncertainties in any construction project over revenues and costs.

The level of estimation and uncertainty differs between the Group's construction businesses, particularly between Regional Building, Major Projects – Building and Infrastructure. Regional Building operates around 300 sites (2022: 350) each year with an average project size of £15.8m (2022: £12.9m) and with average revenue in the year of £4.4m (2022: £3.3m). 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 two stage Design and Build, Construct only and Target Cost 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.

Construction revenue for the year was £1.7bn (2022: £1.4bn) with an associated adjusted operating profit margin of 4.2% (2022: 4.2%).

The historic profit margins in the construction businesses typically range from 3.2% to 4.2%. A potential downside risk in margin would be 1.0% (2022: 2.4%). Given the short-term average duration of the construction portfolio, the impact of such a decrease in margin across projects in delivery at the year-end would be a decrease in operating profit of £16.5m (2022: £34.6m).

(b) Lifecycle assets

The Group has a number of ongoing contracts where lifecycle funds are established to meet contractual obligations. At the 30 June 2023 the carrying value of these non-current contract assets was £43.7m, offset by a provision of £4.9m. The key sensitivity in the 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 £2m in any one year.

(c) 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 9.

(d) 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, discount rate and terminal growth rate. The assumptions are set out in note 13 together with an assessment of the impact of reasonably possible sensitivities.

In undertaking the assessment, the potential net impact of climate change on the forecasts has been considered. At present, it has been concluded that it will not be significant.

Other accounting estimates and judgements

The consolidated financial statements include other areas of judgement and accounting estimates. While these areas do not meet the definition under IAS 1 of significant accounting estimates or critical accounting judgements, the recognition and measurement of certain material assets and liabilities are based on assumptions and/or are subject to longer-term uncertainties.

(a) Joint ventures
In accordance with IFRS 11 paragraph 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 in the reserved matters do not give any one party majority control over relevant activities, regardless of the economic split between partners.

(b) Adjusting items
Adjusting items are items of financial performance which the Group believes should be separately presented to assist in understanding the financial performance achieved by the Group in accordance with the accounting policy set out on page 175. Determining whether an item is classified as an adjusting item requires judgement.

Total adjusting items of £52.9m were charged to the income statement in respect of continuing operations for the year ended 30 June 2023 (2022: £78.2m). 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 have treated these as adjusting items.

(c) Property leases
The Group continues to rationalise its property portfolio and exited its leased corporate offices in Foley Street, London and Fountain Street, Manchester during prior years. The properties are now being sublet for the remaining period of the lease and the associated right-of-use asset is classified as an investment property. Given the length of the underlying leases and the uncertainty in the property market, in calculating the fair value of the right-of-use asset judgement has been exercised. These areas of judgement are detailed in note 15.

(d) Taxation
The Group is predominantly UK-based and all entities are UK resident for tax purposes and therefore subject to UK tax regulations.

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. In particular, the Group has exercised judgement in recognising a deferred tax asset of £106.2m (2022: £105.6m) in respect of tax losses.

The key judgements in assessing the recoverability of the deferred tax asset relate to the taxable profit forecasts. These forecasts are based on the same Board-approved information used to support the going concern and goodwill impairment assessments. The critical judgements related to these forecasts are the same as those described in the goodwill section of this note. In assessing the recoverability, the Group has considered various sensitivities regarding future profitability, those of which are also disclosed within the goodwill section of this note.

The basis for recognising this tax asset is set out in note 18 together with the period in which it is expected to be utilised.

(e) Land and property valuations
The recoverability of property development work in progress is an area which requires significant judgement due to the ongoing volatility in property valuations. An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon the Group's estimate of forecast selling prices and build/development costs (by reference to current prices), which may require significant judgement. Where applicable, third-party valuations are used to support the position as at the balance sheet date.
In valuing work in progress at the lower of cost and net realisable value the Group has already recognised any expected downside, and any upside is contingent on the Group's continued development of the projects as it is not in the business of selling partly developed sites. At 30 June 2023, the value of land and work in progress held for development, included within inventory on the balance sheet, was £59.6m (2022: £43.0m).

(f) Fire and cladding
The Group has undertaken a review of all of its current and legacy constructed buildings where it has used cladding solutions and continues to assess the action required in line with the latest updates to Government guidance, as it applies, to multi-storey and multi-occupied residential buildings. The buildings, including the cladding works, were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of completion.

In preparing the financial statements, currently available information has been considered, including the current best estimate of the extent and future costs of work required, based on the reviews and physical inspections undertaken.

Where an obligation has been established and a reliable estimate of the costs to rectify is available, a provision has been made (see note 25). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses which could give rise to the recognition of further liabilities. Such liabilities, should they arise, are expected to be covered materially by the Group's insurance arrangements thereby limiting the net exposure. Any insurance recovery must be considered virtually certain before a corresponding asset is recognised and so this could potentially lead to an asymmetry in the recognition of assets and liabilities.

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.

2 Revenue continued

Capital projects can range from the construction of power station infrastructure, roads, railways, bridges and tunnels, over a period of several years (e.g. Hinkley Point C, Sellafield SRP 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 treated as 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 five to eight 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.

Infrastructure 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 obligations to make good faulty workmanship under standard industry warranty terms are recognised as provisions (see note 25).

Construction

The Group undertakes over 300 building projects each year, providing construction services in the private, education and health sectors and on public sector frameworks. Projects range from minor extensions costing less than £0.5m 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 usually 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 expected 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 obligations to repair building faults under standard industry warranty terms are recognised as provisions (see note 25).

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 maintenance services to local authorities and private landlords with large housing portfolios. 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.

The Group also provides facilities management and maintenance services for commercial property owners, and waste and recycling collection services for local authority and commercial customers.

Facilities management and maintenance services revenue is recognised over time as the services are rendered. Invoices for services rendered are typically raised monthly. 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. Due to the length of time between performance of the services and payment of the surplus, the Group considers there to be a significant financing component within this element of the transaction price and has therefore adjusted for the time value of money in measuring the revenue recognised in respect of end-of-contract surpluses.

Environmental services contracts with local authorities, for domestic waste and recyclate collections and operation of household waste and recycling centres, have a typical duration of between 7 and 10 years. Contracts 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. Revenue for the sale of recyclate materials is recognised at the point in time that the materials are transferred to the customer.

Property

The Group undertakes property development on its own sites as well as a service for 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.

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.

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.

At 30 June 2023

	2024 £m	2025 £m	2026 onwards £m
Infrastructure Services	**958.3**	**872.1**	**1,930.0**
Construction	**1,196.0**	**322.8**	**6.8**
Property	**–**	**–**	**–**
Total transaction price allocated to remaining performance obligations	**2,154.3**	**1,194.9**	**1,936.8**

At 30 June 2022

	2023 £m	2024 £m	2025 onwards £m
Infrastructure Services	955.4	676.5	493.7
Construction	752.9	255.8	2.0
Property	–	–	–
Total transaction price allocated to remaining performance obligations	1,708.3	932.3	495.7

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

The Group operates three divisions: Infrastructure Services, Construction and Property, which is the basis on which the Group manages and reports its segmental information. Corporate principally includes unrecovered overheads and the charge for defined benefit pension schemes.

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 Operational Review on pages 24–31. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (note 1). The Group evaluates segmental information on the basis of profit or loss from operations before adjusting items (see note 5), interest and 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.

3 Segmental reporting continued
Year to 30 June 2023

Continuing operations	Infrastructure Services £m	Construction £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,712.3	1,652.5	37.6	3.0	3,405.4
Less share of joint ventures	–	(2.4)	(22.3)	–	(24.7)
Group revenue	1,712.3	1,650.1	15.3	3.0	3,380.7
Timing of revenue[1]					
Products and services transferred at a point in time	3.9	0.8	21.5	–	26.2
Products and services transferred over time	1,708.4	1,651.7	16.1	3.0	3,379.2
Group and share of joint ventures	1,712.3	1,652.5	37.6	3.0	3,405.4
Profit for the year					
Operating profit/(loss) before adjusting items[2]	79.8	69.5	12.8	(30.6)	131.5
Adjusting items[2]	(22.6)	(23.1)	1.5	(5.8)	(50.0)
Profit/(loss) from operations	57.2	46.4	14.3	(36.4)	81.5
Net finance income/(costs)[3]	1.4	(4.3)	(0.6)	(26.1)	(29.6)
Profit/(loss) before tax	58.6	42.1	13.7	(62.5)	51.9
Taxation					(10.9)
Profit for the year					41.0
Balance sheet as at 30 June 2023					
Operating assets[4]	973.7	413.1	188.5	342.3	1,917.6
Operating liabilities[4]	(511.7)	(732.7)	(18.5)	(210.2)	(1,473.1)
Net operating assets/(liabilities)[4]	462.0	(319.6)	170.0	132.1	444.5
Cash, cash equivalents and borrowings	456.6	594.5	(134.1)	(859.2)	57.8
Net financial assets	–	–	–	10.7	10.7
Net assets/(liabilities)	918.6	274.9	35.9	(716.4)	513.0
Other information					
Inter-segmental revenue	31.5	0.1	–	40.5	72.1
Capital expenditure on property, plant, equipment and intangible assets	0.7	0.1	–	5.8	6.6
Depreciation of property, plant and equipment	(0.9)	(0.4)	(0.2)	(4.6)	(6.1)
Amortisation of computer software	(1.4)	(0.8)	–	(5.4)	(7.6)

Year to 30 June 2022

Continuing operations	Infrastructure Services £m	Construction £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,666.6	1,440.8	144.3	4.8	3,256.5
Less share of joint ventures	–	(3.1)	(109.5)	–	(112.6)
Group revenue	1,666.6	1,437.7	34.8	4.8	3,143.9
Timing of revenue[1]					
Products and services transferred at a point in time	5.3	1.5	90.7	–	97.5
Products and services transferred over time	1,661.3	1,439.3	53.6	4.8	3,159.0
Group and share of joint ventures	1,666.6	1,440.8	144.3	4.8	3,256.5
Profit for the year					
Operating profit/(loss) before adjusting items[2]	70.0	60.8	17.6	(27.9)	120.5
Adjusting items[2]	(21.9)	(39.0)	(0.9)	(13.6)	(75.4)
Profit/(loss) from operations	48.1	21.8	16.7	(41.5)	45.1
Net finance income/(costs)[3]	2.1	(4.1)	(1.6)	(25.6)	(29.2)
Profit/(loss) before tax	50.2	17.7	15.1	(67.1)	15.9
Taxation					(3.2)
Profit for the year					12.7
Balance sheet as at 30 June 2022					
Operating assets[4]	925.5	442.6	144.0	416.8	1,928.9
Operating liabilities[4]	(466.0)	(706.2)	(25.9)	(179.1)	(1,377.2)
Net operating assets/(liabilities)[4]	459.5	(263.6)	118.1	237.7	551.7
Cash, cash equivalents and borrowings	440.2	504.0	(90.3)	(863.2)	(9.3)
Net financial assets	–	–	–	12.2	12.2
Net assets/(liabilities)	899.7	240.4	27.8	(613.3)	554.6
Other information					
Inter-segmental revenue	25.7	–	–	43.6	69.3
Capital expenditure on property, plant, equipment and intangible assets	2.6	0.4	–	3.7	6.7
Depreciation of property, plant and equipment	(0.9)	(0.4)	(0.2)	(5.1)	(6.6)
Amortisation of computer software	(0.7)	(1.2)	–	(4.1)	(6.0)

1. Revenue is stated after the exclusion of inter-segmental revenue. 100% of the Group's revenue is derived from UK-based customers. 15% of the Group's revenue was received from High Speed Two (HS2) Limited (2022: 10%). Group revenue including joint ventures is an alternative performance measure, see page 243.
2. See notes 1 and 5 for adjusting items.
3. Interest was (charged)/credited to the divisions at a notional rate of 4.0%.
4. Net operating assets/(liabilities) represent assets excluding cash, cash equivalents, bank overdrafts, borrowings, financial assets and liabilities, and interest-bearing inter-company loans.

4 Profit from operations

Profit from operations is stated after charging/(crediting):

	Note	2023 £m	2022 £m
Auditors' remuneration:			
Fees payable for the audit of the parent company and consolidated financial statements		**2.3**	1.9
Fees payable to the Company's auditors for other services[1]:			
Audit of the Company's subsidiaries, pursuant to legislation		**1.2**	1.2
Audit-related assurance services		**0.2**	0.2
Amortisation of intangible assets	13	**26.8**	25.7
Impairment of intangible assets	13	**–**	2.2
Loss on disposal of computer software	13	**–**	0.9
Depreciation of property, plant and equipment	14	**6.1**	6.6
Profit on sale of property, plant and equipment		**(1.8)**	(0.1)
Impairment of property, plant and equipment	14	**–**	4.1
Depreciation of right-of-use assets	23	**43.7**	30.0
Impairment of right-of-use assets	23	**–**	5.2
Fair value adjustment to investment properties	15	**(11.4)**	(0.2)
Amortisation of capitalised mobilisation costs	17	**7.1**	2.4
Expenses relating to short-term leases and leases of low-value assets	23	**115.6**	98.9
Net Research and Development Expenditure Credit receivable[2]	10	**(21.2)**	(18.6)
Net profit from operations related to mining		**–**	(0.2)

1. The auditors' remuneration relates to amounts paid to PricewaterhouseCoopers LLP ('PwC'). A summary of other services provided by PwC during the year is provided on page 110. Included in the 2023 audit fees are £0.2m for prior year work (2022: £0.2m). In 2023, the fees relating to other assurance services primarily related to the review of the interim statements. Also included are £2,000 (2022: £2,000) for a subscription service providing factual updates and changes to applicable law, regulation or accounting and auditing standards.
2. Includes £22.8m of receipts (2022: £20.7m) and £1.6m of fees payable to consultants (2022: £2.1m).

5 Adjusting items

The Group's policy in respect of adjusting items is described in note 1. These items are explained in detail below:

	Profit from operations		Profit before tax	
	2023 £m	2022 £m	**2023 £m**	2022 £m
Reported profit	**81.5**	45.1	**51.9**	15.9
Amortisation of acquired intangible assets	**19.2**	19.7	**19.2**	19.7
Restructuring and related charges	**13.0**	40.0	**13.0**	40.0
Other[1]	**17.8**	15.7	**20.7**	18.5
Adjusted profit	**131.5**	120.5	**104.8**	94.1

1. Operating profit adjusting items exclude net financing costs of £2.9m (2022: £2.8m), see note 5(c).

(a) Amortisation of acquired intangible assets

The Group has amortised contract rights, acquired primarily through the acquisitions of MRBL Limited (Mouchel Group), May Gurney Integrated Services PLC and McNicholas Construction Holdings Limited.

	Note	**2023 £m**	2022 £m
Amortisation of acquired intangible assets	13	**(19.2)**	(19.7)

(b) Restructuring and related charges

The Group has incurred significant restructuring charges relating to costs of organisational change associated with the Group's cost saving programmes and the Group's Strategic Review. These are discussed further in the Financial review and are considered to be adjusting items on the basis of their size and the fact that they relate to significant changes to the Group's activities or workforce.

	2023 £m	2022 £m
Redundancy and other people-related costs[1]	**(7.6)**	(6.5)
Professional adviser fees and other costs incurred implementing non-people initiatives[2]	**(4.9)**	(7.1)
Impairments and other costs relating to investment properties[3]	**(0.5)**	(4.2)
Restructure of Regional Southern Build business[4]	**–**	(22.2)
Total charge before tax	**(13.0)**	(40.0)

1. Costs of £4.8m in respect of roles made redundant as a result of the ongoing implementation of cost saving programmes and from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions, see note 8. The current year charge also includes £2.8m of costs incurred in the re-sizing of the International operations. The Directors consider this to be an adjusting item due to its nature and size.
2. This includes £1.6m of vacant property costs along with a further £4.8m of non-people related initiatives undertaken in the year. This is offset by a credit of £1.5m as a result of the finalisation of aborted acquisition costs from the prior year.
3. Investment property costs include £1.5m in respect of its investment properties vacated as part of the corporate review of Group premises. This is offset by a credit of £1.0m due to revaluation of the land at the Pure recycling plant.
4. In the prior year the Group completed its strategic restructuring of its Regional Southern Build business.

5 Adjusting items continued

(c) Other adjusting items

Other adjusting items are analysed below:

	2023 £m	2022 £m
Net financing costs[1]	**(2.9)**	(2.8)
Legal and other compliance[2]	**(14.1)**	(8.8)
Insurance-related items[3]	**(5.3)**	(5.2)
Profit on sale of previously impaired land[4]	**1.6**	–
Software impairment[5]	**–**	(2.2)
Pension credit[6]	**–**	0.5
Total charge before tax	**(20.7)**	(18.5)

1. Net financing costs relate to IFRS 16 interest charges on leased investment properties previously used as offices.
2. The Group has provided for an additional £12.6m of costs in the year in complying with the updated fire compliance regulations, resulting in a year-end provision of £15.5m. In addition, following the Health and Safety Executive ('HSE') decision in January 2023 to fine the Group for historical safety issues, the Group provided for a further £1.5m to cover these costs.
3. A provision of £8.0m has been made for additional costs associated with an insurance-related receivable. Offsetting this is a credit of £2.7m in relation to insurance proceeds received in respect of the fire at the Group's recycling plant in Warwickshire, to offset the prior year impairment and associated costs.
4. In June 2023 the Group sold some of its land that was previously impaired through adjusting items. The profit of £1.6m has been credited to adjusting items so as to be consistent with the original accounting treatment.
5. During the prior year, the Group impaired some software related to one of its design businesses. This impairment has been treated as an adjusting item due to its nature.
6. During the prior year, a Pension Increase Exchange ('PIE') exercise was undertaken which generated a £0.5m credit to the income statement.

(d) Taxation

Adjusting items in respect of taxation are analysed below:

	2023 £m	2022 £m
Deferred tax credit as a result of the change in tax rate[1]	**2.0**	5.1
Tax impact of adjusting items[2]	**9.1**	14.8
Other tax charges[3]	**–**	(3.6)
Total tax credit	**11.1**	16.3

1. Additional benefits arising from change in tax rate to 25%.
2. The tax impact of the adjusting items charged to continuing operations has also been included as an adjusting item.
3. During the prior year, historical tax balances were identified mainly as a result of historic acquisitions and were written off.

(e) Adjusted cash flow

	Note	2023 £m	2022 £m
Reported cash inflow from operating activities		**180.2**	40.8
Add: Cash outflow from operating activities (adjusting items)	5f	**27.0**	41.2
Adjusted cash inflow from operating activities		**207.2**	82.0

(f) Cash outflow from operating activities (adjusting items)

	2023 £m	2022 £m
Adjusting items reported in the income statement	**52.9**	78.2
Less: non-cash items incurred in the year	**(39.0)**	(38.4)
Add: payment of prior year accruals and provisions	**13.1**	1.4
Cash outflow from operating activities (adjusting items)	**27.0**	41.2

6 Other income

	Note	2023 £m	2022 £m
Insurance proceeds	5(c)	**2.7**	–
Fair value gain on investment properties	15	**11.4**	–
Other income		**14.1**	–

7 Finance income and costs

	2023 £m	2022 £m
Finance income		
Bank deposits	**0.5**	–
Interest receivable on loans to related parties	**1.1**	0.7
Net interest on net defined benefit surplus	**7.8**	–
	9.4	0.7
Finance costs		
Bank interest	**(29.0)**	(18.9)
Interest payable on leases	**(9.5)**	(6.5)
Forward funding interest	**–**	(0.5)
Foreign exchange gains/(losses) on foreign denominated borrowings	**2.5**	(9.9)
Fair value (losses)/gains on cash flow hedges recycled from other comprehensive income[1]	**(1.2)**	7.4
Net interest on net defined benefit surplus	**–**	1.0
Other	**(1.8)**	(2.5)
	(39.0)	(29.9)
Net finance costs	**(29.6)**	(29.2)

1. Foreign exchange (losses)/gains arise from movements in cross-currency swaps which hedge the currency risk on foreign denominated borrowings, see note 29.

8 Information relating to Directors and employees

	2023 No.	2022 No.
Monthly average number of people employed during the year including Executive Directors by geographical location was:		
United Kingdom	**9,909**	10,018
Rest of world	**55**	249
	9,964	10,267
Monthly average number of people employed during the year including Executive Directors by segment was:		
Infrastructure Services	**5,714**	5,895
Construction	**3,631**	3,780
Property	**75**	62
Corporate	**544**	530
	9,964	10,267

	Note	2023 £m	2022 £m
Group staff costs by geographical location are as follows:			
United Kingdom		**646.3**	602.8
Rest of world		**1.7**	4.2
		648.0	607.0
Group staff costs by segment are as follows:			
Infrastructure Services		**346.1**	328.2
Construction		**246.2**	222.3
Property		**13.7**	10.5
Corporate		**42.0**	46.0
		648.0	607.0
Comprising:			
Wages and salaries		**562.4**	522.8
Social security costs		**59.0**	53.3
Defined benefit pension scheme net credit to the income statement	9	**(7.7)**	(1.4)
Contributions to defined contribution pension schemes		**25.9**	23.7
Share-based payments charge	27	**8.4**	8.6
		648.0	607.0

The amounts disclosed above are in relation to the entirety of the Group's Directors and employees.

Information relating to Directors' emoluments, pension entitlements, share options and LTIP interests appears in the Directors' Remuneration report on pages 120–153. Redundancy costs incurred during the year of £4.8m (2022: £4.7m) have been classed as an adjusting item, see note 5, and are included in the disclosures above.

9 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 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, or in the case of one scheme, 31 December. The differing bases and timings of the valuations can result in materially different pension surplus or deficit amounts. The date of the latest triennial funding valuation for each scheme is noted in the individual scheme information sections below.

The Group incurred fees totalling £2.9m (2022: £4.2m) in respect of the running and administration of the defined benefit schemes.

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.

As at 30 June 2023, the scheme had 2,102 deferred members (2022: 2,178), and 2,852 retirees (2022: 2,874).

The most recent triennial valuation of the Kier Group scheme was carried out by the Trustees' independent actuaries as at 31 March 2022. At the valuation date the pension scheme's assets were greater than the technical provisions and therefore the scheme was in surplus. As a result, in May 2023 the Trustee agreed that deficit contributions for this scheme would cease with effect from 1 June 2023.

Other defined benefit schemes

Acquired with the May Gurney Group

The May Gurney defined benefit scheme was acquired with May Gurney on 8 July 2013 and is closed to future accrual.

As at 30 June 2023, the scheme had 269 deferred members (2022: 278) and 290 retirees (2022: 290).

The most recent triennial valuation of the May Gurney scheme was carried out by the Trustees' independent actuaries as at 31 March 2022. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit. However, contributions made between the date of the valuation and finalisation of the funding valuation in May 2023, were sufficient to eliminate the funding deficit and therefore the Trustee agreed that deficit contributions would cease for this scheme with effect from 1 June 2023.

Acquired with the Mouchel Group

The Group acquired four defined benefit pension schemes with the Mouchel Group on 8 June 2015: the Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme.

These schemes were closed to new entrants in 2001 and were closed to future accrual between 2010 and 2017, with the exception of the EM Highways Prudential Platinum Scheme which remains open to future accrual.

As at 30 June 2023, the Mouchel schemes had a total of 5 active members (2022: 18), 1,583 deferred members (2022: 1,638), and 1,691 retirees (2022: 1,646).

The EM Highways Prudential Platinum Scheme is a multi-employer scheme; however, Kier's share is separately identifiable. Therefore, the movements in the period are determined by reference to the change in valuation of this separate subsection. The EM Highways sub-scheme was formally valued by independent actuaries as at 31 December 2021. At the valuation date the assets of the pension scheme were greater than the technical provisions and therefore the scheme had a funding surplus and, as a result, deficit contributions are not required.

The most recent triennial valuations of the remaining Mouchel schemes were carried out by the Trustees' independent actuaries as at 31 March 2022. At the valuation date the assets of the Mouchel Superannuation Fund and Mouchel Staff Pension Scheme were less than the respective technical provisions and therefore the schemes were in deficit. Schedules of contributions for revised deficit recovery plans were agreed with the schemes' Trustee in May 2023. At the valuation date the Mouchel Business Services Limited Pension Scheme was in surplus and therefore deficit contributions were no longer required with effect from 1 June 2023.

9 Retirement benefit obligations continued

Acquired with the McNicholas Group

The McNicholas defined benefit pension scheme was acquired with the McNicholas Group on 12 July 2017. The scheme is closed to new entrants and no benefits have accrued since 30 April 2012. As at 30 June 2023, the scheme had a total of 53 deferred members (2022: 56) and 83 retirees (2022: 80).

During the prior year, the Group launched a member options exercise, offering a Pension Increase Exchange ('PIE') to members of the McNicholas pension scheme, in order to provide more flexibility and choice for members, reduce risk, and reduce cost in the Group's defined benefit pension schemes. The offering included 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 and the introduction of a PIE option at the point of retirement. The terms are such that the IAS 19 pension liabilities are reduced if pensioners take up the PIE option. A combined gain, based on an assumed rate of take-up for both the bulk PIE exercise and the introduction of the at retirement option, of £0.5m was recognised as a past service gain in the year to 30 June 2022.

The most recent triennial valuation of the McNicholas scheme was carried out by the Trustees' independent actuaries as at 31 March 2020. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit. Consequently, a deficit recovery plan has been agreed with the Trustee. The triennial valuation as at 31 March 2023 has not yet been finalised.

Contributions to defined benefit schemes

The aggregate contributions payable in the year ended 30 June 2023 in respect of the Group's defined benefit pension schemes amounted to £9.9m (2022: £10.8m), which included regular past service deficit contributions of £9.8m (2022: £9.9m) and current service employer contributions of £0.1m (2022: £0.2m). In the prior year, the Group also made additional deficit payments totalling £0.7m in respect of the proceeds received from the Group's June 2022 equity raise.

The Group agreed revised deficit recovery plans with the Trustees of the Kier Group scheme, May Gurney scheme, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section) on 25 May 2023, and agreed the latest schedule of contributions for the McNicholas scheme on 26 May 2022. Based on these contribution plans, the Group expects to make the following contributions over the next five years:

	2024 £m	2025 £m	2026 £m	2027 £m	2028 £m
Deficit contributions	**8.9**	**8.1**	**5.5**	**3.5**	**0.9**

In addition to the above contributions, the Group has agreed with the Trustees of the Kier Group scheme, May Gurney scheme, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section) that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets.

The Group has also agreed with the Trustees of the May Gurney scheme, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme and McNicholas scheme to meet each of the scheme's expenses including the Pension Protection Fund levy. As the Kier Group scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section) were in surplus at the last funding valuation date, the Trustees agreed that Kier would stop paying the expenses for these schemes with effect from 1 July 2023. If either of these schemes subsequently move into deficit, on the basis determined by the schemes' actuary at a 31 March measurement date, Kier will recommence payment of the scheme's expenses from 1 July the following year.

Contributions to defined contribution schemes

Contributions are also made to a number of defined contribution arrangements. The Group paid contributions to these arrangements of £25.9m (2022: £23.7m) during the year.

The Group 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 weighted average duration of the schemes' liabilities is approximately 13 years (2022: 15 years).

The IAS 19 accounting valuations at 30 June 2023 of the Kier Group scheme, May Gurney scheme, Mouchel Business Services Limited Pension Scheme and the 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 surpluses, through either reduced contributions or a refund of the surpluses on winding up of the schemes.

The principal assumptions used by the independent qualified actuaries are shown in the following table. This set of assumptions was used to value all of the defined benefit schemes, and has been based on the weighted average duration of the schemes' liabilities with the exception of CPI assumptions, which for 2023 have been based on the expected durations of each individual scheme.

	2023 %	2022 %
Discount rate	**5.30**	3.90
Inflation rate (Retail Price Index ('RPI'))	**3.20**	3.15
Inflation rate (Consumer Price Index ('CPI'))	**2.30–2.75**	2.65
Rate of general increases in pensionable salaries	**3.20**	3.15
Rate of increase in pensions payments liable for Limited Price Indexation		
– RPI subject to minimum of 0% and a maximum 5%	**2.90**	3.05
– RPI subject to minimum of 0% and a maximum 2.5%	**1.85**	2.15

The mortality assumptions used were as follows:

	2023 Male years	2023 Female years	2022 Male years	2022 Female years
Life expectancy for a male/female currently aged 60				
– Kier Group scheme	**26.7**	**28.7**	27.4	29.2
– Acquired schemes	**25.4–27.0**	**28.1–29.2**	26.8–27.7	29.2–30.0
Life expectancy for a male/female member aged 60, in 20 years' time				
– Kier Group scheme	**27.9**	**29.8**	28.7	30.6
– Acquired schemes	**26.9–28.2**	**29.5–30.7**	28.2–28.8	29.8–31.0

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.

	2023			2022		
	Kier Group £m	Acquired schemes £m	Total £m	Kier Group £m	Acquired schemes £m	Total £m
Equities	**100.4**	**53.1**	**153.5**	152.1	74.1	226.2
Corporate bonds	**93.3**	**62.8**	**156.1**	187.9	97.0	284.9
Cash	**40.8**	**49.7**	**90.5**	21.1	94.6	115.7
Land and property	**15.6**	**1.1**	**16.7**	19.8	1.3	21.1
Absolute return	**62.9**	**27.9**	**90.8**	64.4	34.6	99.0
Annuity policies	**–**	**0.5**	**0.5**	–	1.0	1.0
Multi-asset	**95.0**	**44.8**	**139.8**	92.7	44.7	137.4
Liability-driven investments	**442.9**	**156.9**	**599.8**	510.0	161.7	671.7
Total market value of assets	**850.9**	**396.8**	**1,247.7**	1,048.0	509.0	1,557.0
Present value of liabilities	**(733.4)**	**(409.8)**	**(1,143.2)**	(877.8)	(484.5)	(1,362.3)
Net surplus/(deficit)	**117.5**	**(13.0)**	**104.5**	170.2	24.5	194.7
Related deferred tax (liability)/asset	**(29.4)**	**3.3**	**(26.1)**	(42.6)	(6.7)	(49.3)
Net pension asset/(liability)	**88.1**	**(9.7)**	**78.4**	127.6	17.8	145.4

9 Retirement benefit obligations continued

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2023			2022		
	Kier Group £m	**Acquired schemes £m**	**Total £m**	Kier Group £m	Acquired schemes £m	Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Past service gain	**–**	**–**	**–**	–	0.5	0.5
Net interest on net defined benefit surplus	**6.6**	**1.2**	**7.8**	1.5	(0.5)	1.0
Pension income/(expense) recognised in the income statement	**6.6**	**1.1**	**7.7**	1.5	(0.1)	1.4
Remeasurement in comprehensive (loss)/gain						
Actual return less than that recognised in net interest	**(193.4)**	**(122.0)**	**(315.4)**	(208.4)	(131.5)	(339.9)
Actuarial gains due to changes in financial assumptions	**135.7**	**94.8**	**230.5**	302.7	182.4	485.1
Actuarial gains due to changes in demographic assumptions	**17.8**	**10.7**	**28.5**	0.9	0.6	1.5
Actuarial losses due to liability experience	**(19.8)**	**(31.6)**	**(51.4)**	(5.6)	(4.8)	(10.4)
Total amount recognised in comprehensive (loss)/gain	**(59.7)**	**(48.1)**	**(107.8)**	89.6	46.7	136.3
Changes in the fair value of scheme assets						
Fair value at 1 July	**1,048.0**	**509.0**	**1,557.0**	1,273.2	636.7	1,909.9
Interest income on scheme assets	**40.0**	**19.7**	**59.7**	23.8	12.0	35.8
Remeasurement losses on scheme assets	**(193.4)**	**(122.0)**	**(315.4)**	(208.4)	(131.5)	(339.9)
Contributions by the employer	**0.4**	**9.5**	**9.9**	0.5	10.3	10.8
Net benefits paid out	**(44.1)**	**(19.4)**	**(63.5)**	(41.1)	(18.5)	(59.6)
Fair value at 30 June	**850.9**	**396.8**	**1,247.7**	1,048.0	509.0	1,557.0

	2023 Kier Group £m	2023 Acquired schemes £m	2023 Total £m	2022 Kier Group £m	2022 Acquired schemes £m	2022 Total £m
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	(877.8)	(484.5)	(1,362.3)	(1,194.6)	(669.1)	(1,863.7)
Current service cost	–	(0.1)	(0.1)	–	(0.1)	(0.1)
Interest expense on scheme liabilities	(33.4)	(18.5)	(51.9)	(22.3)	(12.5)	(34.8)
Past service gain	–	–	–	–	0.5	0.5
Actuarial gains due to changes in financial assumptions	135.7	94.8	230.5	302.7	182.4	485.1
Actuarial gains due to changes in demographic assumptions	17.8	10.7	28.5	0.9	0.6	1.5
Actuarial losses due to liability experience	(19.8)	(31.6)	(51.4)	(5.6)	(4.8)	(10.4)
Net benefits paid out	44.1	19.4	63.5	41.1	18.5	59.6
Fair value at 30 June	(733.4)	(409.8)	(1,143.2)	(877.8)	(484.5)	(1,362.3)
Amounts included in the balance sheet						
Fair value of scheme assets	850.9	396.8	1,247.7	1,048.0	509.0	1,557.0
Net present value of the defined benefit obligation	(733.4)	(409.8)	(1,143.2)	(877.8)	(484.5)	(1,362.3)
Net surplus/(deficit)	117.5	(13.0)	104.5	170.2	24.5	194.7
Related deferred tax liability	(29.4)	3.3	(26.1)	(42.6)	(6.7)	(49.3)
Net pension asset/(liability)	88.1	(9.7)	78.4	127.6	17.8	145.4

The net surplus/(deficit) above is split between retirement benefit assets and obligations in the statement of financial position based on whether the individual pension schemes have a net surplus or deficit, as follows:

	2023 Kier Group £m	2023 Acquired schemes £m	2023 Total £m	2022 Kier Group £m	2022 Acquired schemes £m	2022 Total £m
Retirement benefit assets	117.5	11.8	129.3	170.2	29.0	199.2
Retirement benefit obligation	–	(24.8)	(24.8)	–	(4.5)	(4.5)
Net surplus/(deficit)	117.5	(13.0)	104.5	170.2	24.5	194.7

9 Retirement benefit obligations continued

The movements in the net retirement benefit surplus/(deficit) are summarised as follows:

	2023			2022		
	Kier Group £m	**Acquired schemes £m**	**Total £m**	Kier Group £m	Acquired schemes £m	Total £m
Opening net surplus/(deficit)	**170.2**	**24.5**	**194.7**	78.6	(32.4)	46.2
Current service cost	**–**	**(0.1)**	**(0.1)**	–	(0.1)	(0.1)
Past service gain	**–**	**–**	**–**	–	0.5	0.5
Net interest on net defined benefit surplus	**6.6**	**1.2**	**7.8**	1.5	(0.5)	1.0
Contributions by the employer	**0.4**	**9.5**	**9.9**	0.5	10.3	10.8
Actual return less than that recognised in net interest	**(193.4)**	**(122.0)**	**(315.4)**	(208.4)	(131.5)	(339.9)
Actuarial gains due to changes in financial assumptions	**135.7**	**94.8**	**230.5**	302.7	182.4	485.1
Actuarial gains due to changes in demographic assumptions	**17.8**	**10.7**	**28.5**	0.9	0.6	1.5
Actuarial losses due to liability experience	**(19.8)**	**(31.6)**	**(51.4)**	(5.6)	(4.8)	(10.4)
Closing net surplus/(deficit)	**117.5**	**(13.0)**	**104.5**	170.2	24.5	194.7

History of experience gains and losses for defined benefit schemes in aggregate:

	2023 £m	2022 £m	2021 £m	2020 £m	2019 £m
Fair value of scheme assets	**1,247.7**	1,557.0	1,909.9	1,937.9	1,789.4
Net present value of the defined benefit obligation	**(1,143.2)**	(1,362.3)	(1,863.7)	(1,899.1)	(1,769.9)
Net surplus	**104.5**	194.7	46.2	38.8	19.5
Related deferred tax liability	**(26.1)**	(49.3)	(12.6)	(7.4)	(3.3)
Net pension asset	**78.4**	145.4	33.6	31.4	16.2
Difference between expected and actual return on scheme assets	**(315.4)**	(339.9)	(26.6)	177.6	113.9
Experience (losses)/gains on scheme liabilities	**(51.4)**	(10.4)	19.2	40.2	(5.6)

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 risk management strategy used by 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 (together the 'Schemes'), have aligned their investment strategy and risk management process, providing a consistent framework across the Schemes to achieve their long-term objective. The liability hedging instruments are managed by Columbia Threadneedle Investments ('CTI') using cash, physical gilts, gilt repurchase agreements as well as interest and inflation swaps. In combination, the liability hedging assets are designed to hedge each Scheme's sensitivity to changes in interest rate and inflation. All Schemes have a relatively high hedge ratio; the Kier Group Pension Scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section) hedge 100% of the technical provisions liabilities, with other Schemes hedging 100% of assets.

The growth assets portfolio is managed by using a combination of underlying pooled funds providing diversification and dynamism. In addition, the Schemes also explicitly use equity downside protection strategies to provide a more balanced and risk managed portfolio.

The Schemes also have allocations to cash flow matching assets that are designed to fully match scheme benefit cash flows over the next five years. This reduces the risk that the Trustee will need to divest from assets to meet cash flow needs.

The Schemes primarily use GBP hedged share classes to manage their currency exposure. Any unhedged currency exposure is small in value relative to the size of the Schemes.

Pension sensitivity

The following table shows the change in the net surplus or deficit arising from a change in the significant actuarial assumptions used to determine the Group's retirement benefit obligations:

	2023		2022	
Kier Group scheme:	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	**33.3**	**(35.2)**	47.6	(48.4)
Inflation rate (+/-0.25%)	**(18.6)**	**18.6**	(36.5)	35.2
Mortality (+/-1 year)	**32.3**	**(32.3)**	40.0	(39.8)

The sensitivity analyses above have been determined based on reasonably possible changes in the respective assumptions occurring at the end of the reporting period, based on a change in a key assumption while holding all other assumptions constant, and may not be representative of the actual change. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The inflation sensitivities shown above include the impact of both RPI and CPI inflation. The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous year.

10 Taxation

Taxation in respect of continuing operations is analysed below.

(a) Recognised in the income statement

	2023 £m	2022 £m
Current tax		
UK corporation tax	**8.4**	5.1
Adjustments in respect of prior years	**(1.1)**	3.4
Total current tax charge	**7.3**	8.5
Deferred tax		
Origination and reversal of temporary differences	**3.2**	0.6
Adjustments in respect of prior years	**2.4**	(0.8)
Rate change effect on deferred tax	**(2.0)**	(5.1)
Total deferred tax	**3.6**	(5.3)
Total tax charge in the income statement	**10.9**	3.2
Reconciliation of effective tax rate		
Profit before tax	**51.9**	15.9
Less: Income from joint venture companies	**(3.6)**	(0.8)
Profit before tax excluding income from joint ventures	**48.3**	15.1
Income tax at UK corporation tax rate of 20.5% (2022: 19.0%)	**9.9**	2.9
Non-deductible expenses and unusable tax losses	**3.1**	0.8
Income not taxable	**(1.2)**	–
Impact of Group relief and consortium relief	**(0.1)**	0.2
Effect of change in UK corporation tax rate	**(2.0)**	(5.1)
Share-based payment	**1.5**	1.6
(Utilisation and recognition of tax losses)/deferred tax not recognised	**(1.6)**	0.2
Adjustments in respect of prior years	**1.3**	2.6
Total tax	**10.9**	3.2

10 Taxation continued

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. 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 excluding joint ventures of £10.9m (2022: £3.2m) shown in the table equates to an effective tax rate of 22.6% (2022: 21.2%) on profit before tax excluding joint ventures of £48.3m (2022: £15.1m). This effective rate is different from the standard rate of corporation tax of 20.5% (2022: 19.0%) due to items shown in the table. The non-deductible expenses mainly relate to depreciation on non-qualifying assets, disallowed provisions, entertaining and legal and professional fees not eligible for tax relief. Income not taxable relates mainly to the reversal of impairments, insurance receipts and foreign exchange gains. Deferred tax not recognised/(Utilisation and recognition of tax losses) relates to deferred tax on losses not previously recognised less deferred tax on losses not expected to be recoverable.

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 £2.0m (2022: £2.0m) has been recognised in respect of uncertain tax positions.

The net charge of £1.3m (2022: £2.6m) in respect of prior years' results arise 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 HMRC.

On 20 June 2023, Finance (No.2) Act 2023 was substantively enacted in the UK, introducing a global minimum effective tax rate of 15%. The legislation implements a domestic top-up tax and a multinational top-up tax, effective for accounting periods starting on or after 31 December 2023. The Group has applied the exemption under the IAS 12 amendment to recognising and disclosing information about deferred tax assets and liabilities related to top-up income taxes.

(b) Recognised in the cash flow statement

The cash flow statement shows cash of £14.0m, in respect of RDEC credits and foreign tax, was received during the year (2022: £20.0m). See note 22.

(c) Recognised in the statement of comprehensive income

	2023 £m	2022 £m
Deferred tax (credit)/charge (including effect of change in tax rate)		
Fair value movements on cash flow hedging instruments	**0.8**	(0.2)
Actuarial (losses)/gains on defined benefit pension schemes	**(24.5)**	34.7
Total deferred tax (credit)/charge	**(23.7)**	34.5
Corporation tax credit in respect of pension contributions paid	**(2.0)**	–
Total tax (credit)/charge in the statement of comprehensive income	**(25.7)**	34.5

The £24.5m credit (2022: £34.7m charge) in deferred tax movements on the defined benefit pension scheme of comprised of a £20.1m credit (2022: £25.9m charge) on current year actuarial movements and a £4.4m credit (2022: £8.8m charge) in respect of the movements in tax rates at which deferred tax is being recognised.

(d) Factors that may affect future tax charges

The deferred tax balance as at the year-end has mainly been recognised at 25.0% (2022: 25.0%), which is the enacted corporation tax rate effective from 1 April 2023. Deferred tax at 30 June 2022 included an adjustment for timing differences expected to reverse prior to 1 April 2023.

Further disclosures in respect of the recoverability of the deferred tax asset have been included in note 18.

(e) Tax losses

At the balance sheet date, the Group has unused tax losses of £612.7m (2022: £639.4m) available for offset against future profits. A deferred tax asset has been recognised on £425.0m (2022: £430.1m) of these losses.

No deferred tax asset has been recognised in respect of the remaining losses as it is unlikely that there will be future taxable profit on which these tax losses could be utilised against. Under present tax legislation, these losses may be carried forward indefinitely.

(f) RDEC

The Research and Development Expenditure Credit ('RDEC') of £22.8m was included in operating profit during the year (2022: £20.7m). Included in the corporation tax asset at 30 June 2023 were RDEC receivables of £16.1m (2022: £12.0m).

11 Dividends

The Group's focus on cash generation and reducing net debt has required a suspension in dividend payments. No interim or final dividends have been declared during the year (2022: £nil). The Group intends to pay a dividend in FY24.

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. As at 30 June 2023, Kier Group plc had distributable reserves of £111.1m (2022: £79.7m). 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.

12 Earnings per share

(a) Reconciliation of earnings used in calculating earnings per share

Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share.

	Note	2023 £m	2022 £m
Continuing operations			
Profit for the year		**41.0**	12.7
Less: non-controlling interest share		**0.1**	–
Profit (after tax and minority interests), being net gains attributable to equity holders of the parent (A)		**41.1**	12.7
Adjusting items (excluding tax)	5	**52.9**	78.2
Tax impact of adjusting items	5	**(11.1)**	(16.3)
Adjusted profit after tax (B)		**82.9**	74.6

(b) Weighted average number of shares used as the denominator

	2023 million	2022 million
Weighted average number of shares used as the denominator in calculating basic earnings per share (C)	**431.2**	443.3
Adjustments for calculation of diluted earnings per share		
Impact of share options	**10.3**	11.8
Weighted average number of shares used as the denominator in calculating diluted earnings per share (D)	**441.5**	455.1

The weighted average number of shares is lower than the number of shares in issue (per note 26) primarily due to shares that are held by the Group's employee benefit trusts (see note 27), which are excluded from the calculation.

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 27.

(c) Basic earnings per share

	2023 pence	2022 pence
Total basic earnings per share attributable to the ordinary equity holders of the Company (A/C)	**9.5**	2.9
Adjusted basic earnings per share attributable to the ordinary equity holders of the Company (B/C)	**19.2**	16.8

(d) Diluted earnings per share

	2023 pence	2022 pence
Total diluted earnings per share attributable to the ordinary equity holders of the Company (A/D)	**9.3**	2.8
Adjusted diluted earnings per share attributable to the ordinary equity holders of the Company (B/D)	**18.8**	16.4

13 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software[1] £m	Total £m
Cost				
At 1 July 2021	538.8	259.4	132.8	931.0
Additions	–	–	0.7	0.7
Disposals	–	(7.2)	(0.9)	(8.1)
At 30 June 2022	538.8	252.2	132.6	923.6
Additions	**–**	**–**	**2.7**	**2.7**
Disposals	**–**	**(16.5)**	**(9.6)**	**(26.1)**
At 30 June 2023	**538.8**	**235.7**	**125.7**	**900.2**
Accumulated amortisation and impairment				
At 1 July 2021	(2.1)	(155.7)	(76.0)	(233.8)
Charge for the year	–	(19.7)	(6.0)	(25.7)
Disposals	–	7.2	–	7.2
Impairment	–	–	(2.2)	(2.2)
At 30 June 2022	(2.1)	(168.2)	(84.2)	(254.5)
Charge for the year	**–**	**(19.2)**	**(7.6)**	**(26.8)**
Disposals	**–**	**16.5**	**9.6**	**26.1**
At 30 June 2023	**(2.1)**	**(170.9)**	**(82.2)**	**(255.2)**
Net book value				
At 30 June 2023	**536.7**	**64.8**	**43.5**	**645.0**
At 30 June 2022	536.7	84.0	48.4	669.1

1. Computer software mainly relates to the Group's ERP software and is being amortised.

Goodwill largely relates to the group of cash generating units ('CGUs') in the Infrastructure Services segment 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 cash flows of each CGU.

The intangible contract rights were recognised on the acquisition of:
- May Gurney Integrated Services plc – Cost £106.8m (2022: £106.8m). Net book value £30.1m (2022: £37.7m).
- MRBL Limited (Mouchel Group) – Cost £127.1m (2022: £127.1m). Net book value £33.5m (2022: £45.0m).
- Certain business and assets of Babcock Civil Infrastructure Limited – Cost £1.6m (2022: £1.6m). Net book value £1.2m (2022: £1.3m).

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

For impairment testing purposes, goodwill has been allocated to the Infrastructure Services and Construction segments, being the lowest level at which management monitors goodwill. There is no goodwill attributed to the Property segment. 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 three-year period.

The resulting cash flows are discounted to present value, with the discount rate used in the value in use calculations based on an industry average cost of capital.

The cost of equity is calculated using observable market data from the Group's competitors. This data is used to calculate an average unlevered beta value after excluding any outliers. The average beta is then applied to the UK's equity risk premium and a risk-free rate added.

The cost of debt is calculated by taking the expected renewal costs of the Group's debt and adjusting for the tax rate.

The cost of equity and cost of debt are then combined using our competitors' average debt/equity split. The after-tax discount rate is then used to calculate the pre-tax discount rates. The pre-tax discount rates, which have been applied to the cash flows for each CGU, are of 13.1% (2022: 11.1%).

The Infrastructure Services segment 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.

Goodwill allocated to the Construction segment is not significant in comparison to the Group's total goodwill and is not sensitive to changes in assumptions.

	2023 Goodwill £m	2023 Intangible contract rights £m	2023 Total £m	2022 Goodwill £m	2022 Intangible contract rights £m	2022 Total £m
Infrastructure Services	**516.3**	**63.6**	**579.9**	516.3	82.7	599.0
Construction	**20.4**	**1.2**	**21.6**	20.4	1.3	21.7
	536.7	**64.8**	**601.5**	536.7	84.0	620.7

Infrastructure Services

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. Based on the value in use calculation, these assumptions detailed below derived a recoverable amount for the Infrastructure Services segment that is £166.3m (2022: £153.0m) above the carrying value of the assets, an increase of £13.3m from the prior year.

The pre-tax discount rate used is 13.1% (2022: 11.1%). An increase in discount rate of 2.9% (2022: 2.2%) would eliminate headroom. A 0.5% increase in discount rate would reduce headroom by £34.9m (2022: £41.3m).

A terminal revenue growth rate of 2.0% (2022: 2.0%) has been applied into perpetuity. This would need to reduce by 3.7% (2022: 2.3%) to eliminate headroom. A 0.5% reduction would reduce headroom by £28.7m (2022: £41.7m).

Forecast revenue growth rates from FY24 to FY26 range from 2.4% to 2.7% (2022: FY23 to FY25 range from 4.1% to 7.7%). A reduction of 9.6% (2022: 5.6%) to the average growth rate would be required for headroom to be eliminated. A 0.5% reduction in growth rate in each year would reduce headroom by £9.1m (2022: £18.4m).

An operating margin of 5.5%[1], consistent with the margin in FY26, has been applied into perpetuity (2022: 5.0%). A reduction of 1.2% (2022: 0.9%) in margin would be required to eliminate headroom. A 0.5% reduction in operating margin would reduce headroom by £72.3m (2022: £87.0m).

Forecast operating margins from FY24 to FY26 range from 5.5% to 5.7% (2022: FY23 to FY25 range from 5.0% to 5.3%). A reduction of 0.8% (2022: 0.8%) in operating margin would be required to eliminate headroom. A 0.5% reduction in margins would result in a reduction in headroom by £98.6m (2022: £84.2m).

In terms of the possible impacts of climate change, the two key assumptions that could be sensitive to this are the growth rate and discount rates noted above. If climate change has a negative impact on revenues and/or the operating costs of the Group, there could be a potential impact on the discounted cash flow growth rates used within the valuation model. Lower future growth rates would reduce the level of the discounted cash flow valuation and hence the amount of headroom available to the Group above an impairment trigger. At present, the material short- to medium-term risks presented by possible climate change impacts are considered to be factored into the growth and discount rates where they are known and can be quantified. Using the current assumptions, no reasonably foreseeable change in the assumptions used within the value in use calculations would cause an impairment. Therefore, at present, changes in the long-term assumptions due to the impact of climate change would also not be expected to trigger an impairment.

1. Profit before interest and tax for the Infrastructure Services segment, prior to the value in use calculation taking into account an allocation of the Group's corporate overheads.

14 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Mining asset[2] £m	Total £m
Cost				
At 1 July 2021	32.3	57.4	4.8	94.5
Additions	0.3	5.7	–	6.0
Disposals	(5.3)	(9.8)	–	(15.1)
Transfers[1]	(2.4)	–	–	(2.4)
Currency realignment	–	0.7	–	0.7
At 30 June 2022	24.9	54.0	4.8	83.7
Additions	**–**	**3.9**	**–**	**3.9**
Disposals	**(1.0)**	**(14.0)**	**(4.8)**	**(19.8)**
Transfers[1]	**–**	**0.7**	**–**	**0.7**
At 30 June 2023	**23.9**	**44.6**	**–**	**68.5**
Accumulated depreciation and impairment				
At 1 July 2021	(9.2)	(37.2)	(4.8)	(51.2)
Charge for the year	(0.8)	(5.8)	–	(6.6)
Impairment	–	(4.1)	–	(4.1)
Disposals	2.0	9.0	–	11.0
Transfers[1]	0.4	–	–	0.4
Currency realignment	–	(0.5)	–	(0.5)
At 30 June 2022	(7.6)	(38.6)	(4.8)	(51.0)
Charge for the year	**(0.2)**	**(5.9)**	**–**	**(6.1)**
Disposals	**0.4**	**13.5**	**4.8**	**18.7**
Transfers[1]	**–**	**(0.3)**	**–**	**(0.3)**
At 30 June 2023	**(7.4)**	**(31.3)**	**–**	**(38.7)**
Net book value				
At 30 June 2023	**16.5**	**13.3**	**–**	**29.8**
At 30 June 2022	17.3	15.4	–	32.7

1. Includes transfers between asset classes as follows:
   – Net book value of plant and equipment transferred from right-of-use assets was £0.4m (2022: £nil).
   – There were no transfers from land and buildings to investment properties (2022: £2.0m).
2. The mining asset represented the stripping activity at the UK Mining operations site. The asset has been disposed of in the current year now that the mine has been decommissioned.

15 Investment properties

(a) Reconciliation of carrying amount

	Owned assets £m	Right-of-use assets £m	Total £m
At 1 July 2021	8.3	41.3	49.6
Transfers	2.0	6.1	8.1
Additions	–	2.5	2.5
Fair value gain/(loss) recognised in administrative expenses	2.7	(2.5)	0.2
At 30 June 2022	13.0	47.4	60.4
Transfers	**2.7**	**–**	**2.7**
Additions	**22.8**	**1.1**	**23.9**
Fair value gain/(loss) recognised in other income	**14.4**	**(3.0)**	**11.4**
At 30 June 2023	**52.9**	**45.5**	**98.4**

Investment properties comprise office buildings and commercial land/properties that were formerly utilised by the Group that have been vacated, along with a student accommodation property held by the Group (previously held within a joint venture). They are leased out (or intended to be leased out) to third parties under operating leases and/or are held for capital appreciation. The investment properties include properties held as right-of-use assets, as well as a property owned by the Group. The investment properties are carried at fair value. Changes in fair values are presented in the profit or loss within other income (2022: immaterial net fair value gain of £0.2m was presented in administrative expenses).

(b) Amounts recognised in the income statement

Year to 30 June 2023:

	2023 £m	2022 £m
Rental income from operating leases	**5.1**	2.4
Direct operating expenses for property that generated rental income	**(2.7)**	(1.4)
Direct operating expenses for property that did not generate rental income	**–**	(0.6)
Fair value gain	**11.4**	0.2
Total net income recognised in the income statement	**13.8**	0.6

(c) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable either monthly or quarterly. Lease payments for some contracts include provisions for RPI increases. One contract entitles the Group to an element of variable lease rentals (in addition to the base rent payments) based on a share of the tenant's revenue in carrying out their business of providing serviced offices and hot desking space at the premises. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group intends to enter into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. Some of the leases include a tenant option to renew the lease for a further period. Expectations about the future residual values are reflected in the fair value of the properties.

Minimum lease payments receivable on leases of investment properties are as follows:

	2023 £m	2022 £m
Less than one year	**3.0**	2.8
One to two years	**2.3**	3.0
Two to three years	**2.1**	2.3
Three to four years	**1.3**	2.1
Four to five years	**1.1**	1.3
Over five years	**–**	1.1
Total	**9.8**	12.6

(d) Measurement of fair values

The fair value of the owned investment property was determined as at 30 June 2022 by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The fair values of the right-of-use investment properties have been determined by the Group without the use of an independent valuer. The fair value measurements for all of the investment properties have been categorised as Level 3 fair values (as defined in note 29), based on the inputs to the valuation techniques used.

15 Investment properties continued

Investment property	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Owned assets	Market approach: The fair values have been determined by adopting an investment approach and assuming continued use as offices/student accommodation/future use as a wind farm.	External valuations are performed every two years. The last valuations were carried out as at 30 June 2022, using the following inputs: **Offices** – Expected market rental growth of 0% (2022: 0%); – Occupancy rate average of 95% (2022: 95%); – Void periods of 24 months to 36 months (2022: 24 months to 36 months); and – Rent-free periods of 12 months on a 5-year lease (2022: 12 months on a 5-year lease). **Student accommodation** – Expected market rental growth of 10% (2022: 3%); – Occupancy rate average of 98% (2022: 98%); and – Expected market yields of 5.8%-6.0% (2022: 5.3%-5.4%). **Wind farm** – Expected electricity price of £55 MW/h; and – Expected market yields of 7%. In years where no valuation is performed, the fair value is reviewed taking into consideration any changes in market conditions and any offers received on the property and adjustments made accordingly.	The estimated fair value would increase/(decrease) if: – Expected market rental growth were higher/(lower); – The occupancy rate was higher/(lower); – Void periods were shorter/(longer); – Rent-free periods were shorter/(longer); – Expected market yields were lower/(higher); or – Expected electricity price was higher/(lower).
Right-of-use assets	Income approach using discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates.	– Expected market rental growth of 1% to 2% (2022: 1% to 2%%); – Occupancy rate average of 92% to 99% (2022: average of 93% to 99%); – Rent-free/void periods of 6–9 months at the end of each tenancy (2022: 6–9 months); and – Risk-adjusted discount rate of 4.2% (2022: 4.2%).	The estimated fair value would increase/(decrease) if: – Expected market rental growth were higher/(lower); – The occupancy rate was higher/(lower); – Rent-free/void periods were shorter/(longer); or – The risk-adjusted discount rate was lower/(higher).

16 Investments in and loans to joint ventures

(a) Movements in year

	2023 £m	2022 £m
Investments in joint ventures		
At 1 July	**82.3**	98.9
Additions	**35.7**	16.8
Acquisition of joint venture debt	**0.9**	–
Disposals	**(22.5)**	–
Loan repayments	**(11.3)**	(7.5)
Share of:		
Operating profit	**1.3**	26.4
Finance (costs)/income	**(0.1)**	0.4
Taxation	**(0.1)**	(0.2)
Post-tax results of joint ventures – continuing operations	**1.1**	26.6
Dividends received	**(1.8)**	(32.5)
Return of equity	**(5.8)**	(20.0)
At 30 June	**78.6**	82.3

(b) Analysis of investments in and loans to joint ventures

	2023 £m	2022 £m
Non-current assets		
Investment properties	**28.2**	42.5
Other non-current assets	**3.2**	–
Non-current assets	**31.4**	42.5
Current assets		
Cash and trade receivables	**127.1**	130.4
Current assets	**127.1**	130.4
Total assets	**158.5**	172.9
Current liabilities		
Trade and other payables	**(17.0)**	(19.8)
Current liabilities	**(17.0)**	(19.8)
Non-current liabilities		
Borrowings	**(62.9)**	(70.7)
Deferred tax liabilities	**–**	(0.1)
Other non-current liabilities	**–**	–
Non-current liabilities	**(62.9)**	(70.8)
Total liabilities	**(79.9)**	(90.6)
At 30 June	**78.6**	82.3

16 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 2023 which, in the opinion of the Directors, are material to the Group. See note 32 for the full list of joint ventures. 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 2023**	% of ownership interest/voting rights 2022	Nature of relationship	**Carrying amount 2023 £m**	Carrying amount 2022 £m
Kier Trade City[1]	England and Wales	**90%/50%**	90%/50%	Property division	**6.5**	6.8
Solum Regeneration[2]	England and Wales	**50%/50%**	50%/50%	Property division	**21.1**	21.3
Kier Cornwall Street[3]	England and Wales	**90%/50%**	90%/50%	Property division	**23.2**	7.2
Kier (Newcastle)[4]	England and Wales	**N/A**	75%/50%	Property division	**–**	8.4
Kier (Southampton)[5]	England and Wales	**75%/50%**	75%/50%	Property division	**3.4**	11.3
Watford Health Campus[6]	England and Wales	**50%/50%**	50%/50%	Property division	**8.9**	9.9
Kier Richmond[7]	England and Wales	**90%/50%**	90%/50%	Property division	**8.0**	7.7
Winsford[8]	England and Wales	**50%/50%**	50%/50%	Property division	**0.1**	0.4
Kier Maidenhead[9]	England and Wales	**90%/50%**	90%/50%	Property division	**0.1**	0.7
Kier PGIM Logistics[10]	England and Wales	**25.5%/25.5%**	25.5%/25.5%	Property division	**6.7**	7.4
Immaterial joint ventures					**0.6**	1.2
					78.6	82.3

1. Kier Trade City consists of Kier Trade City Holdco 1 LLP, Kier Trade City Holdco 2 LLP and Kier Trade City LLP.
2. 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.
3. Kier Cornwall Street consists of Kier Cornwall Street Holdings 1 LLP, Kier Cornwall Street Holdings 2 LLP and Kier Cornwall Street LLP.
4. Kier (Newcastle) consists of Kier (Newcastle) Investment Limited, Kier (Newcastle) Operation Limited and Magnetic Limited.
5. Kier (Southampton) consists of Kier (Southampton) Development Limited, Kier (Southampton) Investment Limited and Kier (Southampton) Operations Limited.
6. Watford Health Campus consists of Watford Health Campus Limited, Watford Health Campus Partnership LLP, Watford Riverwell (Family Housing) LLP and Watford Woodlands LLP.
7. Kier Richmond consists of Kier Richmond Holdings Limited and Kier Richmond Limited.
8. Winsford consists of Winsford Holdings 1 LLP, Winsford Holdings 2 LLP and Winsford Devco LLP.
9. Kier Maidenhead consists of Kier Maidenhead Holdings 1 LLP, Kier Maidenhead Holdings 2 LLP and Kier Maidenhead LLP.
10. Kier PGIM Logistics consists of Kier PGIM Logistics Holdco Ltd, Kier PGIM Logistics (Bognor) Ltd, Kier PGIM Logistics (Bracknell) Ltd, Kier PGIM Logistics (Knowsley) Ltd, Kier PGIM Logistics (St. Albans) Ltd, Kier PGIM Logistics Propco 4 Ltd, Kier PGIM Logistics Propco 5 Ltd, Kier PGIM Logistics Propco 7 Ltd and Kier PGIM Logistics Propco 8 Ltd.

(d) Borrowing facilities and guarantees to joint ventures

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	2023			2022		
	Borrowing facility £m	**Guarantees £m**	**Drawn at 30 June £m**	Borrowing facility £m	Guarantees £m	Drawn at 30 June £m
Kier Trade City LLP	**17.8**	**3.5**	**8.4**	17.8	3.1	7.6
Kier PGIM Logistics (Bognor) Ltd	**24.4**	**–**	**–**	27.0	1.4	2.8
	42.2	**3.5**	**8.4**	44.8	4.5	10.4

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.

(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 Trade City		Solum Regeneration		Kier Cornwall Street		Kier (Newcastle)	
Summarised balance sheet	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Current assets								
Cash and cash equivalents	**0.4**	0.3	**1.2**	0.6	**–**	1.8	**–**	0.7
Other current assets	**16.4**	16.0	**44.8**	51.7	**37.2**	34.4	**–**	2.8
Current assets	**16.8**	16.3	**46.0**	52.3	**37.2**	36.2	**–**	3.5
Non-current assets	**–**	–	**–**	–	**–**	–	**–**	25.1
Current liabilities								
Other current liabilities	**(1.2)**	(1.3)	**(3.9)**	(9.7)	**(1.2)**	(3.2)	**–**	(5.2)
Total current liabilities	**(1.2)**	(1.3)	**(3.9)**	(9.7)	**(1.2)**	(3.2)	**–**	(5.2)
Non-current liabilities								
Financial liabilities (excluding trade payables)	**(8.4)**	(7.5)	**–**	–	**(12.3)**	(25.0)	**–**	(12.1)
Other non-current liabilities	**–**	–	**–**	–	**–**	–	**–**	(0.1)
Total non-current liabilities	**(8.4)**	(7.5)	**–**	–	**(12.3)**	(25.0)	**–**	(12.2)
Net assets	**7.2**	7.5	**42.1**	42.6	**23.7**	8.0	**–**	11.2
Reconciliation to carrying amounts:								
Net assets at 1 July	**7.5**	12.3	**42.6**	63.4	**8.0**	13.9	**11.2**	10.9
Capital introduced	**–**	4.5	**7.8**	9.4	**19.4**	–	**16.3**	–
Disposals	**–**	–	**–**	–	**–**	–	**(30.1)**	–
(Loss)/profit for the year	**(0.3)**	20.3	**(0.4)**	(2.0)	**(3.7)**	(5.9)	**2.6**	0.3
Loan repayments	**–**	(8.3)	**–**	–	**–**	–	**–**	–
Return of equity	**–**	–	**(7.9)**	(27.8)	**–**	–	**–**	–
Dividends paid	**–**	(21.3)	**–**	(0.4)	**–**	–	**–**	–
Net assets at 30 June	**7.2**	7.5	**42.1**	42.6	**23.7**	8.0	**–**	11.2
Group's share (%)	**90%**	90%	**50%**	50%	**90%**	90%	**N/A**	75%
Group's share	**6.5**	6.8	**21.1**	21.3	**21.3**	7.2	**–**	8.4
Capital introduced on behalf of joint venture partner	**–**	–	**–**	–	**1.9**	–	**–**	–
Investment in joint venture	**6.5**	6.8	**21.1**	21.3	**23.2**	7.2	**–**	8.4

16 Investments in and loans to joint ventures continued

Summarised balance sheet	Kier (Southampton) 2023 £m	Kier (Southampton) 2022 £m	Watford Health Campus 2023 £m	Watford Health Campus 2022 £m	Kier Richmond 2023 £m	Kier Richmond 2022 £m
Current assets						
Cash and cash equivalents	**0.7**	1.1	**0.7**	0.4	**0.7**	0.4
Other current assets	**2.4**	2.7	**50.1**	36.7	**15.4**	15.6
Current assets	**3.1**	3.8	**50.8**	37.1	**16.1**	16.0
Non-current assets	**38.5**	31.5	**–**	–	**–**	–
Current liabilities						
Other current liabilities	**(3.4)**	(2.4)	**(17.8)**	(7.2)	**(0.3)**	–
Total current liabilities	**(3.4)**	(2.4)	**(17.8)**	(7.2)	**(0.3)**	–
Non-current liabilities						
Financial liabilities (excluding trade payables)	**(33.0)**	(17.9)	**(15.2)**	(10.2)	**(7.5)**	(7.5)
Other non-current liabilities	**(0.7)**	–	**–**	–	**0.6**	–
Total non-current liabilities	**(33.7)**	(17.9)	**(15.2)**	(10.2)	**(6.9)**	(7.5)
Net assets	**4.5**	15.0	**17.8**	19.7	**8.9**	8.5
Reconciliation to carrying amounts:						
Net assets at 1 July	**15.0**	14.5	**19.7**	18.4	**8.5**	8.6
Capital introduced	**–**	–	**–**	1.1	**–**	–
Profit/(loss) for the year	**4.5**	0.5	**1.7**	2.8	**0.4**	(0.1)
Loan repayments	**(15.0)**	–	**–**	–	**–**	–
Return of equity	**–**	–	**(3.6)**		**–**	
Dividends paid	**–**	–	**–**	(2.6)	**–**	–
Net assets at 30 June	**4.5**	15.0	**17.8**	19.7	**8.9**	8.5
Group's share (%)	**75%**	75%	**50%**	50%	**90%**	90%
Investment in joint venture	**3.4**	11.3	**8.9**	9.9	**8.0**	7.7

Summarised balance sheet	Winsford 2023 £m	Winsford 2022 £m	Kier Maidenhead 2023 £m	Kier Maidenhead 2022 £m	Kier PGIM Logistics 2023 £m	Kier PGIM Logistics 2022 £m
Current assets						
Cash and cash equivalents	**0.1**	0.4	**0.1**	–	**0.6**	4.0
Other current assets	**–**	0.7	**0.1**	1.0	**43.6**	54.2
Current assets	**0.1**	1.1	**0.2**	1.0	**44.2**	58.2
Non-current assets	**–**	–	**–**	–	**2.5**	–
Current liabilities						
Other current liabilities	**–**	(0.4)	**(0.1)**	(0.2)	**(0.4)**	(1.5)
Total current liabilities	**–**	(0.4)	**(0.1)**	(0.2)	**(0.4)**	(1.5)
Non-current liabilities						
Financial liabilities (excluding trade payables)	**–**	–	**–**	–	**(20.1)**	(27.7)
Total non-current liabilities	**–**	–	**–**	–	**(20.1)**	(27.7)
Net assets	**0.1**	0.7	**0.1**	0.8	**26.2**	29.0
Reconciliation to carrying amounts:						
Net assets at 1 July	**0.7**	4.7	**0.8**	3.5	**29.0**	–
Capital introduced	**–**	–	**–**	–	**4.7**	29.1
Profit/(loss) for the year	**0.7**	11.1	**–**	8.3	**(7.5)**	(0.1)
Return of equity	**–**	(4.8)	**–**	(3.6)	**–**	–
Dividends paid	**(1.3)**	(10.3)	**(0.7)**	(7.4)	**–**	–
Net assets at 30 June	**0.1**	0.7	**0.1**	0.8	**26.2**	29.0
Group's share (%)	**50%**	50%	**90%**	90%	**25.5%**	25.5%
Investment in joint venture	**0.1**	0.4	**0.1**	0.7	**6.7**	7.4

16 Investments in and loans to joint ventures continued

Summarised income statement	Kier Trade City 2023 £m	Kier Trade City 2022 £m	Solum Regeneration 2023 £m	Solum Regeneration 2022 £m	Kier Cornwall Street 2023 £m	Kier Cornwall Street 2022 £m	Kier (Newcastle) 2023 £m	Kier (Newcastle) 2022 £m
Revenue	**0.5**	50.1	**24.3**	35.3	**–**	0.6	**–**	1.9
Finance income	**–**	–	**–**	–	**–**	0.4	**–**	–
Finance costs	**–**	–	**–**	–	**(0.1)**	–	**–**	–
Taxation	**–**	–	**–**	–	**–**	–	**–**	(0.1)
Loss/(profit) for the year from continuing operations	**(0.3)**	20.3	**(0.4)**	(2.0)	**(3.7)**	(5.9)	**2.6**	0.3
Loss/(profit) for the year	**(0.3)**	20.3	**(0.4)**	(2.0)	**(3.7)**	(5.9)	**2.6**	0.3
Total comprehensive (expense)/income	**(0.3)**	20.3	**(0.4)**	(2.0)	**(3.7)**	(5.9)	**2.6**	0.3
Dividends received from joint ventures	**–**	19.2	**–**	0.2	**–**	–	**–**	–

Summarised income statement	Kier (Southampton) 2023 £m	Kier (Southampton) 2022 £m	Watford Health Campus 2023 £m	Watford Health Campus 2022 £m	Kier Richmond 2023 £m	Kier Richmond 2022 £m
Revenue	**3.1**	2.7	**12.4**	19.0	**0.9**	4.3
Depreciation and amortisation	**–**	(0.1)	**–**	–	**–**	–
Taxation	**(1.3)**	(0.1)	**–**	–	**0.3**	–
Profit/(loss) for the year from continuing operations	**4.5**	0.5	**1.7**	2.8	**0.4**	(0.1)
Profit/(loss) for the year	**4.5**	0.5	**1.7**	2.8	**0.4**	(0.1)
Total comprehensive income/(expense)	**4.5**	0.5	**1.7**	2.8	**0.4**	(0.1)
Dividends received from joint ventures	**–**	–	**–**	1.3	**–**	–

Summarised income statement	Winsford 2023 £m	Winsford 2022 £m	Kier Maidenhead 2023 £m	Kier Maidenhead 2022 £m	Kier PGIM Logistics 2023 £m	Kier PGIM Logistics 2022 £m
Revenue	**–**	22.7	**–**	19.6	**0.3**	–
Taxation	**–**	–	**–**	–	**2.5**	–
Profit/(loss) for the year from continuing operations	**0.7**	11.1	**–**	8.3	**(7.5)**	(0.1)
Profit/(loss) for the year	**0.7**	11.1	**–**	8.3	**(7.5)**	(0.1)
Total comprehensive income/(expense)	**0.7**	11.1	**–**	8.3	**(7.5)**	(0.1)
Dividends received from joint ventures	**0.7**	5.1	**0.7**	6.6	**–**	–

(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.

	2023 £m	2022 £m
Aggregate carrying amount of individually immaterial joint ventures	**0.6**	1.2
Dividends received from individually immaterial joint ventures	**0.4**	0.1
Aggregate amounts of the Group's share of:		
Loss from continuing operations	**(0.1)**	(0.3)
Total comprehensive expense	**(0.1)**	(0.3)

17 Capitalised mobilisation costs

	2023 £m	2022 £m
At 1 July	**11.6**	3.8
Additions	**1.8**	10.2
Amortisation	**(7.1)**	(2.4)
At 30 June	**6.3**	11.6

18 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[1] £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2021	(23.6)	36.3	29.3	(12.6)	108.6	138.0
Credited/(charged) to income statement – continuing	3.8	(1.5)	8.0	(2.0)	(3.0)	5.3
Credited/(charged) directly to comprehensive income	–	–	0.2	(34.7)	–	(34.5)
At 30 June 2022	(19.8)	34.8	37.5	(49.3)	105.6	108.8
Credited/(charged) to income statement – continuing	**3.9**	**(10.6)**	**3.8**	**(1.3)**	**0.6**	**(3.6)**
Acquisitions and disposals	**–**	**(0.1)**	**–**	**–**	**–**	**(0.1)**
Credited/(charged) directly to comprehensive income	**–**	**–**	**(0.8)**	**24.5**	**–**	**23.7**
At 30 June 2023	**(15.9)**	**24.1**	**40.5**	**(26.1)**	**106.2**	**128.8**

1. Included in short-term temporary differences are deferred tax assets of £15.8m (2022: £13.3m) in respect of RDEC Step 2 amounts carried forward and £23.3m (2022: £21.9m) in respect of the restricted interest amount caught under the UK Corporate Interest Restrictions ('CIR') tax rules.

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2023 £m	2022 £m	**2023 £m**	2022 £m	**2023 £m**	2022 £m
Property, plant and equipment	**24.1**	34.8	**–**	–	**24.1**	34.8
Intangible assets	**–**	–	**(15.9)**	(19.8)	**(15.9)**	(19.8)
Retirement benefit obligations	**–**	–	**(26.1)**	(49.3)	**(26.1)**	(49.3)
Other short-term timing differences	**40.5**	37.5	**–**	–	**40.5**	37.5
Tax losses	**106.2**	105.6	**–**	–	**106.2**	105.6
Total	**170.8**	177.9	**(42.0)**	(69.1)	**128.8**	108.8
Set-off tax	**(42.0)**	(69.1)	**42.0**	69.1	**–**	–
Net tax assets	**128.8**	108.8	**–**	–	**128.8**	108.8

When considering the recoverability of net deferred tax assets, the taxable profit forecasts are based on the same Board-approved information used to support the going concern and goodwill impairment assessments. More information on these forecasts and the methodology applied are included in notes 1 and 13.

The following evidence has been considered when assessing whether these forecasts are achievable and realistic:
- The business traded in line with Board expectations in 2023;
- The Group has substantially completed its restructuring activities and is focusing on the achievement of the medium-term growth strategy; and
- The Group's core businesses are well-placed to benefit from the announced and committed UK Government spending plans to invest in infrastructure and decarbonisation.

When considering the length of time over which the losses are expected to be utilised, the Group has taken into account that generally only 50% of profits in each year can be offset by brought forward losses.

Based on these forecasts, the Group is expected to utilise its deferred tax asset over a period of approximately 10 years (2022: 10 years).

19 Contract assets and liabilities

(a) Current contract assets

	2023 £m	2022 £m
At 1 July	**366.3**	335.7
Transferred to receivables	**(342.6)**	(313.3)
Revenue adjustments 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	**(0.5)**	–
Balance remaining in relation to contract assets at the start of the year	**23.2**	22.4
Increase related to services provided in the year	**335.0**	343.9
At 30 June	**358.2**	366.3

(b) Non-current contract assets

	2023 £m	2022 £m
At 1 July	**31.2**	30.7
Increase related to services provided in the year	**12.5**	0.5
At 30 June	**43.7**	31.2

Non-current contract assets relate to Kier's share of the funding surpluses receivable at the end of long-term PFI maintenance contracts.

(c) Current contract liabilities

	2023 £m	2022 £m
At 1 July	**(67.3)**	(59.9)
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	**60.0**	50.5
Contract liabilities repaid	**4.4**	–
Balance remaining in relation to contract liabilities at the start of the year	**(2.9)**	(9.4)
Increase due to cash received or invoices raised in the year for performance obligations not recognised in revenue	**(87.6)**	(57.9)
At 30 June	**(90.5)**	(67.3)

20 Trade and other receivables

	2023 £m	2022 £m
Current:		
Trade receivables	**50.5**	72.2
Construction contract retentions	**52.4**	72.4
Amounts receivable from joint ventures	**2.1**	4.0
Other receivables	**26.0**	15.8
Prepayments	**53.5**	30.2
Accrued income	**4.7**	8.3
	189.2	202.9
Non-current:		
Construction contract retentions	**18.5**	17.0
	18.5	17.0

Construction contract retentions are amounts withheld by the customer until they are satisfied with the quality of the work undertaken.

21 Inventories

	2023 £m	2022 £m
Raw materials and consumables	**13.3**	13.8
Land and work in progress held for development	**59.6**	43.0
	72.9	56.8

As at 30 June 2023, there were no provisions held against inventory relating to land and work in progress for development (2022: £1.5m).

22 Net cash

	2023 £m	2022 £m
Cash and cash equivalents – bank balances and cash in hand	**376.9**	297.7
Borrowings due within one year	**–**	(40.5)
Borrowings due after one year	**(319.1)**	(266.5)
Impact of cross-currency hedging	**6.3**	12.2
Net cash[1]	**64.1**	2.9

1. Net cash' is an alternative performance measure, see page 243.

22 Net cash continued

Average month-end net debt was £232.1m (2022: £216.1m). Net cash excludes lease liabilities.

Cash and cash equivalents are subject to Group-wide cash pooling arrangements. On a gross basis, cash and cash equivalents were £1,389.5m (2022: £1,546.4m) and overdrafts were £1,012.6m (2022: £1,248.7m).

Cash and cash equivalents include £76.9m (2022: £74.4m) being the Group's share of cash and cash equivalents held by joint operations and £92.3m (2022: £39.9m) of bank balances that are not part of the Group-wide cash pooling arrangement.

Information on borrowings is detailed in note 29.

(a) Reconciliation of working capital between the consolidated balance sheet and consolidated cash flow statement

	2023			2022		
	Inventories £m	**Contract assets £m**	**Trade and other payables £m**	Inventories £m	Contract assets £m	Trade and other payables £m
1 July balance sheet	**56.8**	**397.5**	**(1,099.8)**	54.7	366.4	(1,133.0)
30 June balance sheet	**72.9**	**401.9**	**(1,111.9)**	56.8	397.5	(1,099.8)
Movement per balance sheet	**16.1**	**4.4**	**(12.1)**	2.1	31.1	33.2
Transfers	**2.7**	**–**	**–**	–	–	–
Forward funding interest	**–**	**–**	**–**	–	0.5	–
Discount unwind[1]	**–**	**–**	**–**	–	–	0.7
Unpaid adviser fees in respect of the equity raise[2]	**–**	**–**	**–**	–	–	(6.1)
Net RDEC receipts	**–**	**–**	**(14.0)**	–	–	(20.0)
Other	**–**	**–**	**–**	–	–	4.6
Movement per cash flow statement	**18.8**	**4.4**	**(26.1)**	2.1	31.6	12.4

1. Discount unwind primarily relates to onerous loss-making contracts and deferred consideration.
2. Prior year unpaid adviser fees of £6.1m in respect of the equity raise have been disclosed within the issue of shares net of transaction costs, on the cash flow statement.

(b) Reconciliation of movements in net cash

	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 cash/(borrowings) as at 1 July 2021	391.2	(38.2)	(362.3)	12.3	3.0
Cash flows	(97.4)	38.2	63.6	–	4.4
Transfers	–	(40.5)	40.5	–	–
Foreign exchange movements	3.9	–	(8.3)	(0.1)	(4.5)
Net cash/(borrowings) as at 30 June 2022	297.7	(40.5)	(266.5)	12.2	2.9
Cash flows	**78.9**	**40.5**	**(54.1)**	**–**	**65.3**
Foreign exchange movements	**0.3**	**–**	**1.5**	**(5.9)**	**(4.1)**
Net cash/(borrowings) as at 30 June 2023	**376.9**	**–**	**(319.1)**	**6.3**	**64.1**

(c) Reconciliation of movements in liabilities arising from financing activities

	Borrowings £m	Hedging derivatives £m	Lease liabilities £m
(Liabilities)/assets as at 1 July 2021	(400.5)	13.4	(163.8)
Changes from financing cash flows:			
Repayment of borrowings/principal elements of lease payments	101.8	–	33.8
Settlement of derivative financial instruments	–	(7.5)	–
Non-cash movements:			
Net lease additions	–	–	(27.6)
Foreign exchange movements	(8.3)	–	–
Changes in fair values of derivatives	–	6.3	–
(Liabilities)/assets as at 30 June 2022	(307.0)	12.2	(157.6)
Changes from financing cash flows:			
Drawdown of borrowings	**(56.8)**	**–**	**–**
Repayment of borrowings/principal elements of lease payments	**43.2**	**–**	**45.6**
Settlement of derivative financial instruments	**–**	**(4.7)**	**–**
Non-cash movements:			
Net lease additions	**–**	**–**	**(70.6)**
Foreign exchange movements	**1.5**	**–**	**–**
Changes in fair values of derivatives	**–**	**3.2**	**–**
(Liabilities)/assets as at 30 June 2023	**(319.1)**	**10.7**	**(182.6)**

(d) Free cash flow

	Note	2023 £m	2022 £m
Net cash at 1 July	22	**2.9**	3.0
Net cash at 30 June	22	**64.1**	2.9
Increase/(decrease) in net cash		**61.2**	(0.1)
Adjusted for:			
Payments in respect of adjusting items	5	**27.0**	41.2
Pension deficit payments and fees	9	**12.8**	15.0
Equity raise[1]		**–**	6.1
Purchase of own shares		**11.9**	7.0
Other items		**19.4**	(14.6)
Free cash flow		**132.3**	54.6

1. The £6.1m settled during the prior year relates to the payment of accrued costs previously recorded in equity.

See glossary of alternative performance measures on page 243.

23 Leases

(a) Group as a lessee

The Group has lease contracts for various properties, and items of plant, machinery, vehicles and other equipment used in its operations and for administration of the Group's business. Leases of properties have durations of between one and 44 years. Leases of plant and machinery and other equipment generally have lease terms between one and three years, while motor vehicles generally have lease terms between three and six years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes. A number of property leases contain extension or termination options. In these circumstances, the Group makes a judgement about the period for which it is reasonably certain to lease the property.

The Group's accounting policies for leases are set out in note 1. The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The expense included in the income statements relating to these leases was £115.6m (2022: £98.9m). The assets leased under short-term leases are predominantly small items of plant and equipment and therefore are also of low value. The utilisation of these assets varies depending on the nature and levels of the Group's activities.

23 Leases continued

(b) Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised in respect of the Group's leases and the movements during the year:

	Land and buildings £m	Motor vehicles £m	Plant and equipment £m	Total £m
At 1 July 2021	64.6	19.6	12.3	96.5
Additions	2.8	13.2	17.1	33.1
Depreciation	(7.9)	(11.8)	(10.3)	(30.0)
Impairment[1]	(5.2)	–	–	(5.2)
Transferred to investment properties[1]	(6.1)	–	–	(6.1)
Disposals	(0.9)	(1.7)	(5.1)	(7.7)
At 30 June 2022	47.3	19.3	14.0	80.6
Additions	**5.4**	**11.8**	**80.4**	**97.6**
Depreciation	**(8.1)**	**(9.5)**	**(26.1)**	**(43.7)**
Transferred to owned assets	**–**	**–**	**(0.4)**	**(0.4)**
Disposals	**(1.9)**	**(2.1)**	**(24.7)**	**(28.7)**
At 30 June 2023	**42.7**	**19.5**	**43.2**	**105.4**

1. During the year ended 30 June 2022, the Group vacated its property in Fountain Street, Manchester, which resulted in an impairment of the associated right-of-use asset. As the property was no longer occupied by the Group and was being held for the purpose of earning rental income, the asset was reclassified as an investment property.

(c) Lease liabilities

	2023 £m	2022 £m
Current	**36.2**	25.9
Non-current	**146.4**	131.7
	182.6	157.6

The maturity profile of the contractual cash flows associated with the lease liabilities is presented in note 29. The interest expense in respect of lease liabilities is included within finance costs in the income statement and is disclosed in note 7.

(d) Amounts recognised in the statement of cash flows

	2023 £m	2022 £m
Principal elements of lease payments[1]	**45.6**	33.8
Interest paid[1]	**9.5**	6.5
Payments for short-term leases and leases of low-value assets[2]	**115.6**	98.9
Total cash outflow for leases	**170.7**	139.2

1. Included within cash flows from financing activities within the statement of cash flows.
2. Included within operating cash flows within the statement of cash flows.

24 Trade and other payables

	2023 £m	2022 £m
Current:		
Trade payables[1]	**310.0**	354.2
Accruals	**585.1**	527.4
Subcontract retentions	**22.5**	32.7
Other taxation and social security	**138.4**	122.1
Other payables and deferred income	**19.0**	29.3
	1,075.0	1,065.7
Non-current:		
Trade payables	**5.1**	11.0
Subcontract retentions	**31.8**	23.1
	36.9	34.1

1. There are no outstanding payments due to suppliers who are on bank-supported supply chain finance arrangements (2022: £49.8m).

25 Provisions

	Insurance claims £m	Restoration of mining sites £m	HSE regulatory £m	Onerous contracts £m	Redundancy and site closure £m	Warranty, rectification and other contractual obligations £m	Total £m
At 1 July 2021	21.8	0.8	2.5	5.5	3.4	13.8	47.8
(Credited)/charged to income statement	(3.4)	(0.5)	0.5	3.7	0.9	5.1	6.3
Utilised	–	(0.1)	–	(0.4)	(2.7)	(3.5)	(6.7)
Unwinding of discount	–	–	–	0.2	–	–	0.2
Currency realignment	–	–	–	–	0.4	–	0.4
At 30 June 2022	18.4	0.2	3.0	9.0	2.0	15.4	48.0
(Credited)/charged to income statement	**5.1**	**–**	**1.5**	**6.2**	**1.0**	**12.4**	**26.2**
Utilised	**–**	**(0.1)**	**(4.5)**	**(5.5)**	**(1.6)**	**(4.6)**	**(16.3)**
Unwinding of discount	**–**	**–**	**–**	**0.2**	**–**	**–**	**0.2**
Transfer from creditors	**3.9**	**–**	**–**	**(0.8)**	**–**	**2.1**	**5.2**
Currency realignment	**–**	**–**	**–**	**–**	**(0.1)**	**–**	**(0.1)**
At 30 June 2023	**27.4**	**0.1**	**–**	**9.1**	**1.3**	**25.3**	**63.2**
Expected utilisation							
Within one year	**6.8**	**–**	**–**	**6.5**	**0.6**	**24.3**	**38.2**
After one year	**20.6**	**0.1**	**–**	**2.6**	**0.7**	**1.0**	**25.0**
At 30 June 2023	**27.4**	**0.1**	**–**	**9.1**	**1.3**	**25.3**	**63.2**
Within one year	–	0.2	3.0	6.4	0.8	11.8	22.2
After one year	18.4	–	–	2.6	1.2	3.6	25.8
At 30 June 2022	18.4	0.2	3.0	9.0	2.0	15.4	48.0

Insurance provisions are held in the Group's insurance captive in respect of legal and other disputes in various Group companies. Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain and as such they are classified as due after one year.

Restoration of mining sites provisions represent the cost of restoration of opencast mining sites. 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.

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 site closure provisions are in respect of redundancy costs and office closures.

Warranty and rectification provisions are for potential claims against work completed by the Group. This includes provisions in respect of fire compliance and cladding.

26 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2023 Number	2023 £m	2022 Number	2022 £m
Authorised, issued and fully-paid ordinary shares of 1 pence each	**446,314,435**	**4.5**	446,241,682	4.5

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.

During the year, 72,753 shares were issued under the Sharesave Scheme (2022: 75,983).

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

£134.8m of the merger reserve arose on the shares issued at a premium to acquire May Gurney on 8 July 2013. In addition, a further £215.8m relates to the issue of share capital on 18 June 2021.

27 Share-based payments

The Group operates a number of share-based payment schemes for eligible employees as described below.

Sharesave Scheme

Options over the Company's ordinary shares at 30 June 2023 were as follows:

	Sharesave Scheme 13 November 2019	Sharesave Scheme 15 February 2021	Sharesave Scheme 29 October 2021	Sharesave Scheme 2 November 2022	Total
Number of awards outstanding at 30 June 2023					
Directors	**–**	**–**	**11,250**	**9.818**	**21,068**
Employees[1]	**113,294**	**6,735,438**	**5,370,885**	**8,348,029**	**20,567,646**
	113,294	**6,735,438**	**5,382,135**	**8,357,847**	**20,588,714**
Exercise price (pence)[1]	**86.4**	**56.5**	**96.0**	**55.0**	

1. Where the options were granted before the share issue that completed on 18 June 2021, the numbers of options and the exercise prices have been adjusted to take account of the dilution resulting from the new shares.

Options to acquire shares in the capital of Kier Group plc have been granted to eligible employees who enter into a Sharesave ('SAYE') 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.

8,730,264 options were granted in the year (2022: 7,943,643) under the Sharesave Scheme, which will all be equity settled.

72,753 Sharesave Scheme options were exercised during the year (2022: 75,983). The weighted average market price of Kier Group plc shares at the date of exercise of Sharesave Scheme options during the year was 66.9p (2022: 103.0p).

Conditional Share Award Plan

The Group previously operated 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 were entitled to receive dividend equivalents on these awards. Awards under the CSAP were all equity settled.

There were no outstanding CSAP awards at 30 June 2023.

No new awards were granted under the CSAP in the year (2022: no awards granted) and no shares vested under the CSAP during the year (2022: 650,951 shares vested plus a further 9,777 shares equivalent to the dividends that would have been received during the vesting period). The market price of Kier Group plc shares at the date of exercise of the CSAP options during the prior year was 108.2p.

Long-Term Incentive Plan

Awards over the Company's ordinary shares at 30 June 2023 were as follows:

	LTIP award 18 December 2020	LTIP award 28 October 2021	LTIP award 20 April 2022	LTIP award 21 October 2022	Total
Number of awards outstanding at 30 June 2023					
Directors	**2,095,166**	**2,313,430**	**–**	**3,601,875**	**8,010,471**
Employees[1]	**14,010,761**	**4,432,654**	**305,871**	**9,836,333**	**28,585,619**
	16,105,927	**6,746,084**	**305,871**	**13,438,208**	**36,596,090**
Exercise price (pence)[1]	**nil**	**nil**	**nil**	**nil**	

1. Where the options were granted before the share issue that completed on 18 June 2021, the number of options has been adjusted to take account of the dilution resulting from the new shares.

The Group has established a Long-Term Incentive Plan ('LTIP') under which Directors and senior employees can receive awards of shares. 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 are entitled to receive dividend equivalents on these awards. Awards under the LTIP are all equity settled. The awards made to Directors are subject to a two-year post-vesting holding period and malus and clawback provisions.

15,492,751 new options were granted under the LTIP scheme in the year (2022: 8,570,392) and 8,432,381 shares vested during the year (2022: nil). The weighted average market price of Kier Group plc shares at the date of exercise of LTIP options during the year was 62.3p (2022: n/a).

Further description of the above share schemes and the terms and conditions of each scheme are included in the Directors' Remuneration report on pages 120–153.

27 Share-based payments continued

Shares held in trusts

The CSAP and LTIP 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 Trust or 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:

	2023		2022	
	Number of shares	**Historic cost value £m**	Number of shares	Historic cost value £m
At 1 July	**7,555,030**	**7.7**	708,965	2.6
Acquired during the year	**18,607,232**	**12.4**	7,942,521	7.5
Issued in satisfaction of share scheme awards	**(8,432,381)**	**(8.0)**	(650,951)	(2.0)
Issued in satisfaction of dividend equivalents for share scheme awards	**–**	**–**	(9,777)	–
Issued in satisfaction of deferred bonus schemes	**(776,920)**	**(0.9)**	(435,728)	(0.4)
At 30 June	**16,952,961**	**11.2**	7,555,030	7.7

The market value of these shares at 30 June 2023 was £12.7m (2022: £5.1m).

The shares acquired by the trusts in the year at a cost of £12.4m (2022: £7.5m), net of cash received by the trusts in respect of the deferred bonus schemes of £0.5m (2022: £0.5m) is reflected in the statement of changes in equity as a net purchase of own shares of £11.9m (2022: £7.0m).

Fair value of share-based payments

The fair value per option granted has been calculated using 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. For awards made to the Directors which are subject to a two-year holding period post-vesting, the Finnerty model is used. The following assumptions were used in calculating the fair values:

Sharesave Scheme

Date of grant	18 November 2019	15 February 2021	29 October 2021	2 November 2022
Share price at grant (pence)	86.5	77.5	106.8	58.2
Exercise price (pence) – at grant	101.0	66.0	96.0	55.0
Exercise price (pence) – adjusted for share issue	86.4	56.5	96.0	55.0
Expected term (years)	3.3	3.3	3.3	3.3
Expected volatility	68.5%	80.2%	82.7%	62.1%
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	0.49%	0.01%	0.73%	3.13%
Value per option (pence) – at grant	37.0	44.6	61.9	27.6
Value per option (pence) – adjusted for share issue	31.7	38.1	61.9	27.6

Long-Term Incentive Plan

Date of grant	18 December 2020	18 December 2020 (Directors)	28 October 2021	28 October 2021 (Directors)	20 April 2022	21 October 2022	21 October 2022 (Directors)
Share price at grant (pence)	81.0	81.0	108.4	108.4	80.8	60.0	60.0
Exercise price (pence)	nil	nil	nil	nil	nil	nil	nil
Expected term (years)	3.0	3.0	3.0	3.0	2.5	3.0	3.0
Holding period (years)	n/a	2.0	n/a	2.0	n/a	n/a	2.0
Expected volatility	90.7%	92.4%	83.2%	66.6%	83.2%	53.7%	44.5%
Risk-free interest rate	0.00%	0.00%	0.67%	0.77%	0.67%	3.83%	4.14%
Value per option (pence) – at grant							
– Market condition (25%)	58.4	50.6	85.2	76.3	63.5	41.2	38.1
– Non-market condition (75%)	81.0	70.1	108.4	97.0	80.8	60.0	55.6
Value per option (pence) – adjusted for share issue							
– Market condition (25%)	50.0	43.3	85.2	76.3	63.5	41.2	38.1
– Non-market condition (75%)	69.2	59.9	108.4	97.0	80.8	60.0	55.6

The value per option represents the fair value of the option less any consideration payable. The fair value of the proportion of the awards subject to performance conditions that are market conditions under IFRS 2 'Share-based Payments' (the TSR – total shareholder return element) incorporates an assessment of the number of shares that will vest.

The performance conditions linked to adjusted earnings per share, adjusted operating profit, the net debt to earnings before interest, tax, depreciation and amortisation ratio (Net Debt:EBITDA) and free cash flow, are non-market conditions under IFRS 2. Therefore, the fair value of these elements do not include an assessment of the number of shares that will vest. Instead, the amount charged is based on the fair values 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 period of time commensurate with the expected award term immediately prior to the date of grant. The risk-free rate of return is the yield on UK Government securities over a term consistent with the expected term.

A charge of £8.4m relating to share-based payments has been recognised in the income statement as employee costs (2022: £8.6m). Included in other payables is an amount of £1.0m (2022: £1.0m) relating to the accrual of employer's national insurance in respect of share-based payments expected to vest in the future.

27 Share-based payments continued

Summary of movements in the number of options

A reconciliation of option movements is shown below:

	2023		2022	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 July	**57,273,676**	**26.3p**	47,929,960	23.9p
Granted	**24,223,015**	**19.8p**	16,514,035	46.2p
Lapsed or forfeited	**(15,806,753)**	**39.0p**	(6,443,385)	61.5p
Exercised	**(8,505,134)**	**0.5p**	(726,934)	7.5p
Outstanding at 30 June	**57,184,804**	**23.9p**	57,273,676	26.3p
Exercisable at 30 June	**105,434**	**66.8p**	294,805	81.7p

The options outstanding at 30 June 2023 have a weighted average remaining contractual life of 1.42 years (2022: 1.43 years).

28 Guarantees and contingent liabilities

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 initially measured at fair value, based on the premium received from the joint venture or the differential in the interest rate of the borrowing including and excluding the guarantee. Subsequent to initial recognition, financial guarantee contracts are measured at the higher of the initial fair value measurement (adjusted for any income amounts recognised) and the amount determined in accordance with the expected credit loss model. Details of financial guarantees provided to support joint ventures are disclosed in note 16(d). 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.

Fire and cladding review

As disclosed in note 1 of the financial statements, the Group has undertaken a review of all of its current and legacy constructed buildings where it has used cladding solutions and continues to assess the action required in line with the latest updates to Government guidance, as it applies, to multi-storey and multi-occupied residential buildings. The buildings, including the cladding works, were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of completion.

In preparing the financial statements, currently available information has been considered, including the current best estimate of the extent and future costs of work required, based on the reviews and physical inspections undertaken.

Where an obligation has been established and a reliable estimate of the costs to rectify is available, a provision has been made (see note 25). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses which could give rise to the recognition of further liabilities. Such liabilities, should they arise, are expected to be covered materially by the Group's insurance arrangements thereby limiting the net exposure. Any insurance recovery must be considered virtually certain before a corresponding asset is recognised and so this could potentially lead to an asymmetry in the recognition of assets and liabilities.

29 Financial instruments

The following table summarises the Group's financial instruments as at 30 June 2023:

	2023			2022		
	Financial assets at amortised cost £m	Financial liabilities at amortised cost £m	Derivatives £m	Financial assets at amortised cost £m	Financial liabilities at amortised cost £m	Derivatives £m
Financial assets						
Trade and other receivables (less prepayments)	**154.2**	**–**	**–**	189.7	–	–
Cash and cash equivalents	**376.9**	**–**	**–**	297.7	–	–
Equity loans provided to joint ventures	**101.8**	**–**	**–**	105.4	–	–
Other financial assets	**–**	**–**	**10.7**	–	–	12.2
Total	**632.9**	**–**	**10.7**	592.8	–	12.2
Financial liabilities						
Borrowings	**–**	**(319.1)**	**–**	–	(307.0)	–
Lease liabilities	**–**	**(182.6)**	**–**	–	(157.6)	–
Trade and other payables[1]	**–**	**(971.8)**	**–**	–	(977.3)	–
Total	**–**	**(1,473.5)**	**–**	–	(1,441.9)	–
Net	**632.9**	**(1,473.5)**	**10.7**	592.8	(1,441.9)	12.2

1. Trade and other payables exclude other taxes and social security and deferred income.

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 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 22 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 of repayment or borrowings. All investment decisions typically require a pre-tax annualised return of at least 15.0% 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.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognising interest expense at a fixed interest rate for the hedged floating rate borrowings and elimination of exchange rate movements in the income statement relating to the hedged foreign currency denominated borrowings.

29 Financial instruments continued

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:

	2023 £m	2022 £m
Provision as at 1 July	**2.1**	2.3
Credited to the income statement	**(1.4)**	(0.6)
Charged to the income statement	**1.5**	0.5
Utilised in the year	**(0.6)**	(0.1)
Provision as at 30 June	**1.6**	2.1

There were £12.4m (2022: £19.7m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £3.7m (2022: £8.2m) had been received by the end of August 2023. There are no indications as at 30 June 2023 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 2023 that were overdue for payment was 25% (2022: 28%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Infrastructure Services	5 days (2022: 7 days)
Construction	9 days (2022: 13 days)
Property	186 days (2022: 4 days)

Overall, the Group considers that it is not exposed to significant credit risk.

Equity loans to joint ventures of £101.8m (2022: £105.4m) are considered under the general ECL model and have been compared to future cash flows and net assets of the joint venture to ensure that they are still expected to be fully recoverable.

Market risk

Interest rate risk

The Group has borrowing facilities to finance short-term working capital and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over SONIA. The Group's borrowings, excluding the effect of derivatives, can be analysed as follows:

	2023 £m	2022 £m
Fixed rate	**80.8**	131.2
Variable rate	**239.6**	177.9
Cost of raising finance	**(1.3)**	(2.1)
	319.1	307.0

The Group has entered into floating to fixed interest rate swaps in order to mitigate the Group's exposure to movements in interest rates. One of the Group's joint ventures has also entered into interest rate swaps in order to mitigate its own interest rate risk.

Interest rate risk arises on the Group's borrowings where they are not at fixed interest rates and are not hedged. A 50 basis point increase/decrease in the interest rate would lead to a c.£2.1m increase (2022: £1.8m) or £2.1m decrease (2022: £1.8m) in the Group's net finance cost.

Foreign currency risk

The Group operates primarily within the UK such that its exposure through its trading operations to currency risk is not considered to be significant. Where material 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 recognised in the profit and loss is offset by movements on the derivative which are recycled from other comprehensive income. As at 30 June 2023 the Group had the equivalent £25.2m (2022: £45.7m) of debt denominated in US dollars at fixed currency rates using derivatives. 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 £2.7m decrease (2022: £2.8m) or £2.9m increase (2022: £2.9m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

As at 30 June 2023 the Group had unhedged debt outstanding of US$35.9m (2022: US$39.1m). A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a decrease of £1.4m/increase of £1.3m (2022: decrease of £1.7m/increase of £1.5m) in the carrying amount of the liability.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund operations 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 the 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.

Details of guarantees provided by the Group to support the borrowing facilities of its joint ventures are given in note 16(d). The Group provides no other financial guarantees other than those provided to its joint ventures.

Derivative financial instruments

As at 30 June 2023, the Group had the following cross-currency and interest rate swaps:

- One cross-currency swap taken out in 2014 to hedge the currency risk on a US dollar-denominated loan, nominal value US$40.0m.
- One floating to fixed interest rate swap taken out in 2022 to hedge the interest rate risk on part of the Group's revolving credit facility, nominal value £100.0m.
- One floating to fixed interest rate swap taken out in 2023 to hedge the interest rate risk on part of the Group's revolving credit facility, nominal value £100.0m, reducing to £75.0m in 2024 and £50.0m in 2025.

As at 30 June 2022, the Group had three additional cross-currency swaps, two with a total value of $20.0m and one with a value of $10.0m. They all expired during the year.

The Group has assessed the effectiveness of these swaps and concluded that they are highly effective. 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
Cross-currency swaps: asset					
Gross settled inflows		33.7	1.5	32.2	–
Gross settled outflows		(26.8)	(1.1)	(25.7)	–
	6.5	6.9	0.4	6.5	–
Interest rate swaps: asset					
Net settled	4.2	2.6	1.7	0.6	0.3

In addition to the above, one of the Group's property joint ventures has entered into an interest rate derivative as a means of hedging interest rate risk. The interest-bearing debt and associated interest rate derivative with this joint venture expires in May 2026 and is without recourse to the Group. At 30 June 2023, the aggregate amount outstanding on this interest-bearing debt against which an interest rate derivative is held is £12.3m (2022: £15.0m). The Group's share of the total net fair value asset of this interest rate derivative at 30 June 2023 amounted to £0.3m (2022: £0.1m) which have met the criteria for hedging accounting.

29 Financial instruments continued

Financial liabilities – analysis of maturity dates

At 30 June 2023, the Group had the following financial liabilities at amortised cost together with the maturity profile of their contractual cash flows:

	Continuing operations			
30 June 2023	**Trade and other payables[1] £m**	**Borrowings £m**	**Lease liabilities £m**	**Total £m**
Carrying value	**971.8**	**319.1**	**182.6**	**1,473.5**
Contractual undiscounted cash flows				
Less than one year	**935.0**	**23.2**	**44.2**	**1,002.4**
One to two years	**31.4**	**325.2**	**35.7**	**392.3**
Two to three years	**6.1**	**–**	**24.5**	**30.6**
Three to four years	**2.1**	**–**	**16.0**	**18.1**
Four to five years	**–**	**–**	**11.6**	**11.6**
Over five years	**–**	**–**	**97.9**	**97.9**
	974.6	**348.4**	**229.9**	**1,552.9**

	Continuing operations			
30 June 2022	Trade and other payables[1] £m	Borrowings £m	Lease liabilities £m	Total £m
Carrying value	977.3	307.0	157.6	1,441.9
Contractual undiscounted cash flows				
Less than one year	944.3	55.5	31.5	1,031.3
One to two years	25.4	9.4	24.2	59.0
Two to three years	8.0	269.2	17.4	294.6
Three to four years	1.7	–	13.1	14.8
Four to five years	0.2	–	11.4	11.6
Over five years	0.7	–	106.7	107.4
	980.3	334.1	204.3	1,518.7

1. Trade and other payables exclude other taxes and social security and deferred income.

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 2023.

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 2023:

	Level 1 £m	**Level 2 £m**	**Level 3 £m**	**Total £m**
Assets				
Derivatives used for hedging – Cross-currency swaps	**–**	**6.5**	**–**	**6.5**
Derivatives used for hedging – interest rate swap	**–**	**4.2**	**–**	**4.2**

There were no transfers between levels 1 and 2 during the year ended 30 June 2023.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2022:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	12.2	–	12.2
Derivatives used for hedging – interest rate swap	–	–	–	–

There were no transfers between levels 1 and 2 during the year ended 30 June 2022.

Borrowings and borrowing facilities

As at 30 June 2023, the Group had the following unsecured committed facilities after the effect of derivatives:

- Revolving credit facility of £495.0m (2022: £535.0m), at a margin over SONIA, due for renewal on 31 January 2025, £229.9m drawn at 30 June 2023 (2022: £177.9m); and
- Two loan notes, principal amounts of £21.0m, US$75.9m, with fixed coupons of between 5.2% and 5.4% repayable in January 2025, fully drawn at 30 June 2023, totalling £74.4m, which includes elements at both fixed and floating currency rates (2022: £111.1m).

In addition, the Group has unsecured overdraft facilities of £18.0m (2022: £18.0m), at a margin over base rate, repayable on demand, undrawn at 30 June 2023 and 2022.

Included within borrowings are capitalised loan fees of £1.3m (2022: £1.9m).

The Group repaid and reduced total available facilities by £83.8m (2022: £38.2m) in the year ended 30 June 2023.

30 Financial and capital commitment

	2023 £m	2022 £m
Commitments for capital expenditure	**7.8**	18.9
	7.8	18.9

Capital commitments recognised during the year ended 30 June 2023 relate to capital contributions to a joint venture.

31 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 120–153.

In addition to their salaries, the Group also provides non-cash benefits to Directors and contributes to their pension arrangements as disclosed on page 130. Key management personnel also participate in the Group's share option programme (see note 27).

Key management personnel compensation comprises:

	2023 £m	2022 £m
Total fixed pay as analysed in the Directors' remuneration report	**2.0**	1.9
Bonus as analysed in the Directors' remuneration report	**1.5**	1.2
Employer's national insurance contributions	**0.6**	0.4
Share-based payment charge[1]	**1.8**	1.1
Total key management personnel compensation	**5.9**	4.6

1. Share-based payment charge is calculated under IFRS 2 'Share-based Payments' as described in note 27.

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 9.

31 Related parties continued
Transactions with joint ventures

	2023 £m	2022 £m
Construction services and materials	**0.9**	23.2
Staff and associated costs	**2.5**	2.4
Management services	**1.3**	1.0
Interest on loans to joint ventures	**0.4**	0.7
Plant hire	**0.2**	0.2
	5.3	27.5

Those joint ventures which the Directors consider to be material to the Group are disclosed in note 16.

Equity and other shareholder loans due from joint ventures are analysed below:

	2023 £m	2022 £m
Kier Cornwall Street Holdings 1 LLP	**16.2**	6.5
Kier Cornwall Street Holdings 2 LLP	**16.2**	6.5
Kier Richmond Holdings Limited	**9.9**	9.9
Kier PGIM Logistics Holdco Limited	**8.6**	7.4
Solum Regeneration (Twickenham) LLP	**8.5**	9.2
Solum Regeneration (Guildford) LLP	**7.5**	8.7
Solum Regeneration (Bishops) LLP	**7.5**	6.7
Watford Health Campus Partnership LLP	**7.2**	9.0
Kier Trade City Holdco 1 LLP	**6.8**	6.8
50 Bothwell Street Holdco 1 LLP	**5.2**	5.2
Solum Regeneration (Redhill) LLP	**3.1**	2.3
Solum Regeneration (Epsom) LLP	**1.6**	1.5
Solum Regeneration (Surbiton) LLP	**1.0**	0.8
Kier (Southampton) Investment Limited	**0.9**	12.2
Solum Regeneration (Maidstone) LLP	**0.7**	0.7
Solum Regeneration Holding 1 LLP	**0.7**	0.7
Solum Regeneration Holding 2 LLP	**0.2**	0.2
Kier (Newcastle) Investment Limited	**–**	11.1
	101.8	105.4

Trading balances and other loans due from/(to) joint ventures are analysed below:

	2023 £m	2022 £m
Kier Trade City LLP	**0.4**	(0.3)
Dragon Lane LLP	**0.1**	0.1
Kier Reading LLP	**(0.4)**	(0.4)
Kier Cornwall Street	**–**	2.0
Kier Maidenhead LLP	**–**	(0.4)
Lysander Student Operations Limited	**–**	(0.5)
Solum Regeneration (Twickenham) LLP	**–**	(6.7)
Winsford Devco LLP	**–**	–
Kier (Southampton) Investment Limited	**–**	–
Watford Health Campus Partnership LLP	**–**	–
Hackney Schools for the Future 2 Limited	**–**	–
Team Van Oord Limited	**–**	–
Kier Richmond Limited	**–**	–
	0.1	(6.2)

32 Subsidiaries and other undertakings

A full list of subsidiaries, branches, associated undertakings, and joint arrangements as at 30 June 2023 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	100%
		B Ordinary	100%
Arena Central Developments LLP	1	–	100%
Arena Central Management Limited	1	A Ordinary	100%
			25%[3]
Caribbean Construction Company Limited	2	Ordinary	100%
Caxton Integrated Services Holdings Limited	1	Ordinary	100%
ClearBOX Limited	1	Ordinary	100%
Dudley Coles Limited	1	Ordinary	100%
FDT (Holdings) Ltd	1	Ordinary	100%
FDT Associates Ltd	1	Ordinary A	100%
Heart of Wales Property Services Limited	3	Ordinary	50%
J L Kier & Company (London) Limited	1	Ordinary	100%
J L Kier & Company Limited	1	Ordinary	100%
Kier (Catterick) Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier (Kent) PSP Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier (Malaysia) SDN. BHD. (in liquidation)	4	Ordinary	100%
Kier (Newcastle) Investment Ltd	1	Ordinary	100%
Kier (Newcastle) Operation Limited	1	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 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	5	Ordinary	100%
Kier Construction LLC[9]	6	Ordinary	49%
Kier Construction SA	7	Ordinary	100%
Kier Developments Limited	1	A Ordinary	100%
		B Ordinary	100%
		C Ordinary	100%
Kier Dormant Holdings Limited (in liquidation)	1	Ordinary	100%
Kier Dubai LLC[9]	8	Ordinary	49%
Kier Education Investments Limited	1	B Ordinary	100%
		M Ordinary	100%
Kier Education Services Limited	1	B Ordinary	100%
		M Ordinary	100%
Kier Energy Solutions Limited	1	Ordinary	100%
		A Ordinary	100%
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 Green Investments Limited (formerly Kier Thurrock Limited)	1	Ordinary	100%
Kier Group Trustees Limited[2]	1	Ordinary	100%
Kier Harlow 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 Infrastructure and Overseas Limited	1	Ordinary	100%
Kier Infrastructure and Overseas Limited – Hong Kong Branch			
Kier Infrastructure and Overseas Limited – Jamaica Branch			
Kier Infrastructure and Overseas Limited – Trinidad Branch			

32 Subsidiaries and other undertakings continued

Company name	Registered office[1]	Share class(es) held	% held by Group
Kier Infrastructure Pty Ltd	9	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 (in liquidation)			
Kier International Limited – Jamaica Branch			
Kier International Limited	10	Ordinary	100%
Kier Islington Limited	1	Ordinary	100%
		Islington	100%
Kier Jamaica Development Limited	1	Ordinary	100%
Kier 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 National Limited	1	Ordinary	100%
Kier North Tyneside Limited[5]	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 (in liquidation)	1	Ordinary	100%
Kier Parkman ServiGroup Limited (in liquidation)	1	Ordinary	100%

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 Recycling CIC	1	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%
Kier Sydenham Limited	1	Ordinary	100%
Kier Traffic Support Limited	1	Ordinary	100%
Kier Transportation Limited (formerly Kier Highways Limited)	1	A Ordinary B Ordinary	100% 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%
Liferange Limited	1	Ordinary	100%
Magnetic Limited	1	Ordinary	100%
McNicholas Construction (Holdings) Limited	1	Ordinary	100%
McNicholas Construction Services Limited	1	Ordinary	100%
MPHBS Limited	1	Ordinary	100%
MRBL Limited	1	Ordinary A	100%
		Ordinary B	100%
		Deferred B	100%
Parkman Consultants Limited	1	Ordinary	100%
Parkman Holdings Limited (in liquidation)	1	Ordinary	100%
Parkman Kenya Limited	11	Ordinary	100%
Parkman Nigeria Limited	12	Ordinary	100%
Pure Buildings Limited	1	Ordinary	100%
Pure Recycling Warwick Limited	1	Ordinary A	100%

Company name	Registered office[1]	Share class(es) held	% held by Group
		Ordinary B	100%
Saudi Kier Construction Limited (in liquidation)	13	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 Insurance Company Limited[2]	14	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	15	Ordinary	100%
Turriff Group Limited	15	Ordinary	100%
		Ordinary A	100%
		Ordinary B	100%
Usherlink Limited	1	Ordinary	100%
W. & C. French (Construction) Limited	1	Ordinary	100%
Wallis Limited	1	Ordinary	100%
Wallis Western Limited	1	Ordinary	100%
William Moss Construction Limited (in liquidation)	16	Ordinary	100%
William Moss Group Limited (The)	1	Ordinary	100%

1. See list of registered office details and explanatory notes on page 235.

Listed below are subsidiaries controlled and consolidated by the Group, which under Section 479A of the Companies Act 2006 (the 'Act') are exempt from the requirements of the Act relating to the audit of accounts.

Company name	Company registration number	Year-end
2020 Liverpool Limited	04782302	31 March 2023
Arena Central Developments LLP	OC305452	30 June 2023
Caxton Integrated Services Holdings Limited	01531034	30 June 2023
ClearBOX Limited	08658406	30 June 2023
Kier (Catterick) Limited	07372563	30 June 2023
Kier (Newcastle) Investment Ltd	09978111	30 June 2023
Kier (Newcastle) Operation Limited	10609470	30 June 2023
Kier Asset Partnership Services Limited	06928701	30 June 2023
Kier Build Limited	01551959	30 June 2023
Kier Commercial Investments Limited	04002798	30 June 2023
Kier Education Investments Limited	06458919	30 June 2023
Kier Education Services Limited	05457729	30 June 2023
Kier Finance Limited	05887689	30 June 2023
Kier Green Investments Limited (formerly Kier Thurrock Limited)	08922437	30 June 2023
Kier Harlow Limited	05961079	30 June 2023
Kier Holdings Limited	05887559	30 June 2023
Kier International (Investments) Limited	01463191	30 June 2023
Kier Islington Limited	03922885	30 June 2023
Kier MBS Limited	11632543	30 June 2023
Kier Minerals Limited	02099531	30 June 2023
Kier Overseas (Nine) Limited	01531039	30 June 2023
Kier Overseas (Seventeen) Limited	01462100	30 June 2023
Kier Overseas (Twenty-Three) Limited	02127112	30 June 2023
Kier Plant Limited	04233359	30 June 2023
Kier Professional Services Limited	08881783	30 June 2023
Kier Recycling CIC	03153490	30 June 2023
Kier Stoke Limited	06391459	30 June 2023
Kier Sydenham Limited	08486944	30 June 2023
Kier Thurrock Limited	08922437	30 June 2023
Magnetic Limited	07775665	30 June 2023
MPHBS Limited	05916368	30 June 2023
Pure Buildings Limited	06290364	30 June 2023
T H Construction Limited	01532971	30 June 2023
TradeDirect Logistics Limited	11400572	30 June 2023

32 Subsidiaries and other undertakings continued
Joint ventures

Company name	Registered office[1]	Interest held
Property		
3 Sovereign Square Holdings 1 LLP	1	50%
3 Sovereign Square Holdings 2 LLP	1	50%
3 Sovereign Square LLP	1	50%
50 Bothwell Street Holdco 1 LLP	17	50%
50 Bothwell Street Holdco 2 LLP	17	50%
50 Bothwell Street LLP	17	50%
Dragon Lane Holdings 1 LLP	1	50%
Dragon Lane Holdings 2 LLP	1	50%
Dragon Lane LLP	1	50%
Kent LEP 1 Limited	1	80%
Kier (Southampton) Development Limited	1	75%
Kier (Southampton) Investment Limited	1	75%
Kier (Southampton) Operations Limited	1	75%
Kier Cornwall Street Holdings 1 LLP	1	90%
Kier Cornwall Street Holdings 2 LLP	1	90%
Kier Cornwall Street LLP	1	90%
Kier Countryside Holdings 1 LLP	18	50%
Kier Countryside Holdings 2 LLP	18	50%
Kier Foley Street Holdco 1 LLP	1	90%
Kier Foley Street Holdco 2 LLP	1	90%
Kier Foley Street LLP	1	90%
Kier HGP Devco 1 LLP	1	50%
Kier HGP Devco 2 LLP	1	50%
Kier HGP Holdings 2 Limited	1	50%
Kier HGP Holdings LLP	1	50%
Kier Maidenhead Holdings 1 LLP	1	90%
Kier Maidenhead Holdings 2 LLP	1	90%
Kier Maidenhead LLP	1	90%
Kier PGIM Logistics (Bognor) Ltd	1	25.5%
Kier PGIM Logistics (Bracknell) Ltd	1	25.5%
Kier PGIM Logistics (Knowsley) Ltd	1	25.5%
Kier PGIM Logistics (Milton Keynes) Ltd	1	25.5%

Company name	Registered office[1]	Interest held
Kier PGIM Logistics (St. Albans) Ltd	1	25.5%
Kier PGIM Logistics Holdco Ltd	1	25.5%
Kier PGIM Logistics Propco 5 Ltd	1	25.5%
Kier PGIM Logistics Propco 7 Ltd	1	25.5%
Kier PGIM Logistics Propco 8 Ltd	1	25.5%
Kier Reading Holdco 1 LLP	1	90%
Kier Reading Holdco 2 LLP	1	90%
Kier Reading LLP	1	90%
Kier Richmond Holdings Limited	1	90%
Kier Richmond Limited	1	90%
Kier Sydenham GP Holdco Limited	1	50%
Kier Sydenham GP Limited	1	50%
Kier Sydenham LP	1	50%
Kier Sydenham Nominee Limited	1	50%
Kier Trade City Holdco 1 LLP	1	90%
Kier Trade City Holdco 2 LLP	1	90%
Kier Trade City LLP	1	90%
Kier Warth Limited	1	50%
Lysander Student Properties Investments Limited	1	75%
Lysander Student Properties Limited	1	75%
Lysander Student Properties Operations Limited	1	75%
Penda Limited	1	50%
Premier Inn Kier Limited	1	50%
Saltbox Business Park (Management) Limited	1	16.75%
Solum Regeneration (Bishops) LLP	1	50%
Solum Regeneration (Epsom) Limited Partnership	1	50%
Solum Regeneration (Guildford) LLP	1	50%
Solum Regeneration (Haywards) LLP	1	50%
Solum Regeneration (Kingswood) LLP	1	50%
Solum Regeneration (Maidstone) LLP	1	50%
Solum Regeneration (Redhill) LLP	1	50%
Solum Regeneration (Surbiton) LLP	1	50%
Solum Regeneration (Twickenham) LLP	1	50%

Company name	Registered office[1]	Interest held
Solum Regeneration (Walthamstow) LLP	1	50%
Solum Regeneration Epsom (GP Subsidiary) Limited	1	50%
Solum Regeneration Epsom (GP) Limited	1	50%
Solum Regeneration Epsom (Residential) LLP	1	50%
Solum Regeneration Holding 1 LLP	1	50%
Solum Regeneration Holding 2 LLP	1	50%
Transcend Property Limited	19	50%
Tri-Link 140 Holdings 1 LLP	1	50%
Tri-Link 140 Holdings 2 LLP	1	50%
Tri-Link 140 LLP	1	50%
Watford Health Campus Limited	1	50%
Watford Health Campus Partnership LLP	1	50%
Watford Riverwell (Family Housing) LLP	1	50%
Watford Riverwell Management Company Limited	1	50%
Watford Woodlands LLP	1	50%
Winsford Devco LLP	1	50%
Winsford Holdings 1 LLP	1	50%
Winsford Holdings 2 LLP	1	50%
Construction		
Kier Graham Defence Limited	1	50%
Services		
2020 Knowsley Limited	1	80.1%
Hackney Schools for the Future Limited	1	80%
Team Van Oord Limited	20	25%

1. See list of registered office details and explanatory notes on page 235.

32 Subsidiaries and other undertakings continued

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	BAM Ferrovial Kier JV C435, The London School of Beauty, 18-19 Long Lane, London, EC1A 9LP
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
Devonport	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited	St. James House, Knoll Road, Camberley, Surrey, GU15 3XW
EKFB	a joint arrangement between Kier Infrastructure and Overseas Limited, Eiffage Génie Civil, Ferrovial Agroman (UK) Limited and BAM Nuttall Limited	5th Floor, Exchange House, Midsummer Boulevard, Milton Keynes, MK9 2EA
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 Framework	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited	J23 P&R HPC Postal Consolidation Centre, Huntsworth Business Centre, North Petherton, Somerset, TA6 6TS
Kier BAM JV	a joint arrangement between Kier Integrated Services Limited and BAM Civil Limited (company number 17543, registered office Kill, County Kildaire)	2nd Floor, Optimum House, Clippers Quay, Salford, M50 3XP
KCD	a joint arrangement between Kier Integrated Services Limited and Clancy Docwra Limited	Thames Water Offices, Clear Water Court, Vastern Rd, Reading, RG1 8DB
Luton People Mover	a joint arrangement between Kier Infrastructure and Overseas Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
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
RAF Lakenheath	a joint arrangement between Kier Construction Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
Tarmac Kier JV	a joint arrangement between Kier Highways Limited and Tarmac Trading Limited	2nd Floor, Optimum House, Clippers Quay Salford, M50 3XP
International		
The following joint operations, in which the Group participation is between 30% and 65%, operate overseas in the territory indicated:		
MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited and Kaden Construction Limited	Tower B, 6/F, Manulife Financial Centre, 223 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited	Room 905, 9/F, King's Road, North Point, Hong Kong
Saadiyat Rotana Hotel and Resort Complex	a joint arrangement between Kier Construction LLC and Ali and Sons Contracting Co LLC	P.O. Box 2153, Abu Dhabi
Kier ACC	a joint arrangement between Kier Dubai LLC and Arabian Construction Co.SAL	P.O. Box 24461, Dubai

Registered office addresses

Number	Address
1	2nd Floor, Optimum House, Clippers Quay, Salford, M50 3XP, UK
2	Harbour Head, Harbour View, Kingston 17, Jamaica
3	Unit 31, Ddole Road Industrial Estate, Llandrindod Wells, Powys, LD1 6DF, UK
4	9-5 & 7-5, Jalan 8/146, Bandar Tasik Selatan, Kuala Lumpur, 57000, Malaysia
5	c/o Grant Thornton, Cnr Bank Street and West Independence Sq Street, Basseterre, Saint Kitts and Nevis
6	Unit 869, Al Gaith Tower, Hamdan Street, PO Box 61967, Abu Dhabi, United Arab Emirates
7	151 Angle Avenue, Jean Paul II et Impasse Duverger, Turgeau, Port-au-Prince, Haiti
8	905, 9th Floor, Thuraya Tower, Tecom, P.O. Box 24461, Dubai, United Arab Emirates
9	Pinsent Masons, Level 46, 101 Collins Street, Melbourne, VIC 3000, Australia
10	6th Floor, Emperor Commercial Centre, 39 Des Voeux Road Central, Hong Kong
11	5th Floor, Agip House, P.O. Box 41425, Nairobi, Kenya
12	9, N/Azikiwe St., Lagos, Nigeria
13	Office No 5, 3rd Floor, Building No 8122, street 4A, 5323 Prince Muhammad Ibn Soud Dist, P.C. 32241 Dammam, Kingdom of Saudi Arabia
14	PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey
15	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, G33 6HZ, UK
16	1 More London Place, London, SE1 2AF, UK
17	Renoir House, 135-137 New Bond Street, Mayfair, London, England, W1S 2TQ, UK
18	Countryside House, The Drive, Brentwood, Essex, CM13 3AT, UK
19	1 Kingsway, London, WC2B 6AN, UK
20	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ, 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. 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.
6. 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.
7. Interests in the above joint ventures are held by subsidiary undertakings.
8. The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group has joint control.
9. Accounted for as a subsidiary as control is achieved through an agreement between shareholders.
10. Where companies are shown as being in liquidation, in all cases this is either a members' voluntary liquidation or a strike-off application.

33 Post balance sheet event

On 4 September 2023, after the year-end, the Group agreed to acquire substantially all of the rail assets of Buckingham Group Contracting Limited ('in Administration') and their HS2 contract supplying Kier's HS2 joint venture, EKFB for a total consideration of up to £9.6m.

Company balance sheet

As at 30 June 2023

	Note	2023 £m	2022 £m
Non-current assets			
Investments	5	**446.2**	437.8
Deferred tax assets[1]	6	**3.1**	3.3
Amounts due from subsidiary undertakings	7	**1,525.4**	1,467.5
Other financial assets	9	**9.7**	8.5
Non-current assets		**1,984.4**	1,917.1
Current assets			
Other financial assets	9	**1.0**	3.7
Current assets		**1.0**	3.7
Total assets		**1,985.4**	1,920.8
Current liabilities			
Bank overdraft		**(444.3)**	(415.8)
Creditors: amounts falling due within one year	8	**(2.5)**	(42.4)
Corporation tax payable[1]		**(15.2)**	(9.9)
Provisions for liabilities		**(2.2)**	(1.2)
Current liabilities		**(464.2)**	(469.3)
Non-current liabilities			
Creditors: amounts falling due after more than one year	8	**(309.4)**	(266.5)
Amounts due to subsidiary undertakings	8	**(56.0)**	(60.9)
Provisions for liabilities		**–**	(2.2)
Non-current liabilities		**(365.4)**	(329.6)
Total liabilities		**(829.6)**	(798.9)
Net assets		**1,155.8**	1,121.9

	Note	2023 £m	2022 £m
Shareholders' funds			
Called up share capital	9	**4.5**	4.5
Share premium account		**684.3**	684.3
Merger reserve		**350.6**	350.6
Capital redemption reserve		**2.7**	2.7
Profit and loss account		**111.1**	79.7
Cash flow hedge reserve		**2.6**	0.1
Total equity		**1,155.8**	1,121.9

1. Deferred tax asset of £3.3m and corporation tax payable of £9.9m have been re-presented in the comparative information to be shown separately on the face of the balance sheet and to present deferred tax in non-current assets.

The profit for the year was £34.9m (2022: £20.6m).

The financial statements of Kier Group plc, company registration number 2708030, on pages 236–241 were approved by the Board of Directors on 13 September 2023 and were signed on its behalf by:

Andrew Davies
Chief Executive

Simon Kesterton
Chief Financial Officer

Company statement of changes in equity

For the year ended 30 June 2023

	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Cash flow hedge reserve £m	Total equity £m
At 1 July 2021	4.5	684.3	350.6	2.7	57.2	0.9	1,100.2
Profit for the year	–	–	–	–	20.6	–	20.6
Other comprehensive expense	–	–	–	–	–	(0.8)	(0.8)
Total comprehensive income/(expense) for the year	–	–	–	–	20.6	(0.8)	19.8
Purchase of own shares	–	–	–	–	(6.7)	–	(6.7)
Share-based payments	–	–	–	–	8.6	–	8.6
At 30 June 2022	4.5	684.3	350.6	2.7	79.7	0.1	1,121.9
Profit for the year	**–**	**–**	**–**	**–**	**34.9**	**–**	**34.9**
Other comprehensive income	**–**	**–**	**–**	**–**	**–**	**2.5**	**2.5**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**34.9**	**2.5**	**37.4**
Purchase of own shares	**–**	**–**	**–**	**–**	**(11.9)**	**–**	**(11.9)**
Share-based payments	**–**	**–**	**–**	**–**	**8.4**	**–**	**8.4**
At 30 June 2023	**4.5**	**684.3**	**350.6**	**2.7**	**111.1**	**2.6**	**1,155.8**

Included in the profit and loss account is the balance on the share scheme reserve which comprises the investment in own shares of £11.2m (2022: £6.9m) and a credit balance on the share scheme reserve of £12.8m (2022: £15.5m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment scheme are included in note 27 to the consolidated financial statements.

Notes to the Company financial statements

For the year ended 30 June 2023

1 Accounting policies

The principal accounting policies are summarised below. Other than where new accounting policies have been adopted (as noted 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, except for derivative financial instruments which are stated at their fair value.

Kier Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 2nd Floor, Optimum House, Clippers Quay, Salford, England, M50 3XP.

The Company's financial statements are included in the Kier Group plc consolidated financial statements for the year ended 30 June 2023. 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 2022 have 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 46–52 of IFRS 2 'Share-Based Payments'
- The requirements of IFRS 7 'Financial Instruments: Disclosures'
- The requirements of paragraphs 91–99 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 requirement of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134–136 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 requirement of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures'
- The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions 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.

Where required, equivalent disclosures are given in the Annual Report and Accounts of the Group as shown in notes 1–10.

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 pages 171 and 172.

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.

Provisions

Provisions are recognised when the Company 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.

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.

(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
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 portion of changes in the fair value of these derivatives is recognised in the cash flow hedge reserve within equity. 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.

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. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

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. The fair values of derivative instruments 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 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 applies to the Sharesave, Conditional Share Award Plan 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. Awards that are subject to a post-vesting holding period are valued using the Finnerty 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 of the Company 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.

1 Accounting policies continued

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.

Considerable headroom exists when comparing the book value of the investments with their recoverable amounts. Therefore, the Directors have determined that the investment value is not particularly sensitive to changes in the assumptions used in the value in use calculations. Any reasonable adjustment to any of the assumptions would not result in an impairment of the investments.

2 Profit/(loss) 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 £34.9m (2022: £20.6m).

The auditors' remuneration for audit services to the Company was £0.1m (2022: £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 120–153. The Company has no employees other than the Directors.

4 Dividends

No dividends have been paid by the Company (2022: £nil). See note 11 to the consolidated financial statements.

5 Investments

	2023 £m	2022 £m
At 1 July	**437.8**	429.2
Capital contributions	**8.4**	8.6
At 30 June	**446.2**	437.8

Details of the Company's subsidiaries at 30 June 2023 are provided in note 32 to the consolidated financial statements.

Capital contributions of £8.4m were made during the year ended 30 June 2023 in relation to share-based payments on behalf of subsidiaries (2022: £8.6m).

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and it must be agreed to by the directors of those subsidiary companies. Listed in note 32 are subsidiaries controlled and consolidated by the Group where the directors have taken advantage of the exemption from having an audit of the companies' individual financial statements in accordance with Section 479A of the Companies Act 2006.

In order to facilitate the adoption of this exemption, Kier Group plc, the ultimate parent company of the subsidiaries concerned, undertakes to provide a guarantee under Section 479C of the Companies Act 2006 in respect of those subsidiaries.

6 Deferred tax assets

	2023 £m	2022 £m
Deferred tax	**3.1**	3.3
	3.1	3.3

7 Debtors

	2023 £m	2022 £m
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings[1]	**1,525.4**	1,467.5
	1,525.4	1,467.5

1. The amounts due from subsidiary undertakings incur interest at 4.0%, loans are contractually repayable on demand or in a period of up to 4 years but no amounts are expected to be repaid within 12 months.

8 Creditors

	2023 £m	2022 £m
Amounts falling due within one year:		
Borrowings	**–**	40.5
Other creditors	**2.5**	1.9
	2.5	42.4
Amounts falling due after more than one year:		
Borrowings	**309.4**	266.5
Amounts due to subsidiary undertakings[1]	**56.0**	60.9
	365.4	327.4

1. The amounts due to subsidiary undertakings incur interest at 4.0% and are repayable after one year.

Further details on borrowings are included in note 22 to the consolidated financial statements.

9 Other financial assets

The Company has the following cross-currency and interest rate swaps:

- One cross-currency swap taken out in 2014 to hedge the currency risk on a US dollar-denominated loan, nominal value US$40.0m.
- One floating to fixed interest rate swap taken out in 2022 to hedge the interest rate risk on part of the Group's revolving credit facility, nominal value £100.0m.
- One floating to fixed interest rate swap taken out in 2023 to hedge the interest rate risk on part of the Group's revolving credit facility, nominal value £100.0m, reducing to £75.0m in 2024 and £50.0m in 2025.

In FY22, the Company had three additional cross-currency swaps, two with a total value of $20m and one with a value of €10m. They all expired during the year.

The Company has assessed the effectiveness of these swaps and concluded that they are highly effective. 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:

	Fair value £m	Total £m	0–1 year £m	1–2 years £m	Expected cash flows 2–5 years £m
Cross-currency swaps: asset					
Gross settled inflows	–	33.7	1.5	32.2	–
Gross settled outflows	–	(26.8)	(1.1)	(25.7)	–
	6.5	6.9	0.4	6.5	–
Interest rate swaps: assets					
Net settled inflows	4.2	2.6	1.7	0.6	0.3

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 Company 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 2023.

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 2023:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	**–**	**6.5**	**–**	**6.5**
Derivatives used for hedging – Interest rate swaps	**–**	**4.2**	**–**	**4.2**
	–	**10.7**	**–**	**10.7**

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2022:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	12.2	–	12.2
Derivatives used for hedging – Interest rate swaps	–	–	–	–
	–	12.2	–	12.2

There were no transfers between levels 1 and 2 during the year.

10 Called up share capital

Details of the share capital of the Company are included in note 26 to the consolidated financial statements.