

Responsible business, positive outcomes

The Kier approach to sustainable business



Kier is a leading property, residential, construction and services group.

We operate across a broad range of sectors including defence, education, health, highways, housing, industrials, power, property, transport and utilities. We offer a breadth of capabilities enabling us to bring together the right skills from across the business to provide an integrated offer to our clients.

To maximise the opportunity for growth, we will exploit and invest in the development of our integrated offer.

Our vision

Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

Our values

Collaborative

We work together: we consult to reach the right solution and as a team achieve more.

Enthusiastic

We make things happen: we are resourceful problem-solvers, who enjoy what we do and get the job done.

Forward-thinking

We look ahead: we positively challenge the way we do things to excel, we care about our customers and the service we provide.

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Introduction from the Kier Group

Vision 2020 is Kier's five-year strategy for growth and sets out our aspirations for the period. A key strategic priority is to 'operate a safe and sustainable business'.

In our annual Corporate Responsibility Report, for the year ended June 2016, we explain our progress against this priority.



Claudio Veritiero

Alan Smith

Claudio Veritiero (CV), Group Strategy and Corporate Development Director, and Alan Smith (AS), Director of Group Corporate Responsibility, answer questions on the progress with and future direction of Kier's approach to responsible and sustainable business.

Q: How does Kier's strategy for a sustainable business fit into Vision 2020?

CV: Vision 2020, Kier's five-year strategy for growth, set out our aspirations for the period. Sustainability is one of Vision 2020's six strategic priorities – 'operate a safe and sustainable business'. When we agreed this strategy in 2014 we did so taking a view of what the expected macroeconomic and geopolitical situation would be over the term. The sustainability strategy also supports the delivery of those strategic priorities covering customer experience, performance and efficiency and to attract and retain motivated teams.

Q: What are the drivers for Kier's approach to responsible and sustainable business?

CV: 'Responsible Business, Positive Outcomes' (RBPO) – Kier's strategy for a sustainable business – is a key component of Vision 2020 and addresses the principal non-financial performance measures we are focused on in the short, medium and long-term. It also identifies how our operations can have both positive and negative impacts on the environments in which they operate. RBPO addresses these and identifies ways to add value to our business, for our stakeholders and back to wider society, or mitigate risk as appropriate.

Q: Is RBPO set in stone or is it designed to be flexible and responsive?

AS: RBPO has to be flexible. As the world around us changes our impacts change. The recent referendum on membership of the European Union, the historic agreement reached in Paris on limiting climate change and the introduction of the Modern Slavery Act 2015 are examples of changes that will impact on our business, the way we deliver services, the expectations of our clients and how we engage with our employees and our supply chains.

We constantly review our targets and have done this in consultation with our business units and their clients as well as our shareholders. This year's report updates on progress and also the revisions.

Q: What do you see as Kier's most significant achievement since launching the strategy last year?

AS: Top of my list was the engagement with a good number of our biggest shareholders, both 1:1 and in a group forum. This helped identify the value these shareholders place on our non-financial priorities when evaluating their investment decisions. Collectively we gained a better understanding of the real value of sustainability to our business. Other significant highlights include:

- The Kier social value calculator, which maps out how providing employment opportunities to people creates wider benefits to society as a whole
- Kier's first Environment Week, which focused on our potential impacts and how we can reduce these while also creating efficiencies for our business
- We have made progress on energy consumption and reducing our carbon footprint. This is through efficiencies and structural change leading to financial savings. We also benchmarked our water footprint and now look to identify ways to include both in our approach to Resource Efficiency Action Plans
- Finally, the introduction of a new Code of Conduct for all Kier employees and parties connected to our business, for example suppliers and subcontractors. The Code has simplified many existing policies into one that explains how we do business at Kier. It has now been included in our employee induction programme, and is the basis of our ongoing training.

One area which continues to be a challenge is our commitment to reducing and recycling construction material waste. Waste has increased in the year and is a direct cost to the business. Reducing this waste, thereby cutting our costs, improving our efficiency and reducing our impact on the environment remains a key focus for Kier.

Introduction continued

Q: What are the areas for improvement or further innovation?

CV: Innovation and improvement are one and the same in terms of sustainability. We need to explore new materials, methods and processes across our operations that can deliver savings and efficiencies to our customers. For example, during the year we introduced a new safety app for users of mobile devices which encourages more reporting of potential issues and is delivering significant benefits to Kier.

Q: How do you assess Kier's overall performance in the year?

AS: As an organisation, we recognise that there are many ways to assess our performance such as how satisfied our clients are with our performance, how our benchmarks compare against peers and also the independent perspective provided by the Business

in the Community (BITC) Corporate Responsibility (CR) Index. We were able to maintain our performance year-on-year despite the benchmark becoming progressively more difficult.

Q: Can Kier achieve its ambitions on responsible and sustainable business on its own or does it need to form allegiances and partnerships with its supply chain partners?

CV: Fundamental to achieving growth in a responsible and sustainable way is working even more closely with supply chain partners who share our ethos. A good example of this is delivering on our commitments on human rights. It is easier for us to ensure that our employees and subcontractors are being treated fairly. It is far more difficult to see how people employed in the supply chain for products and materials are being treated. We have launched

A strategy based on sustainable growth



	Focus area
People and communities Relevant strategic priorities: 	Safety, health and wellbeing Employee engagement and retention Diversity Training, education and apprenticeships Society and community
Environment Relevant strategic priorities: 	Carbon Waste Water Biodiversity Environmental incidents
Marketplace Relevant strategic priorities: 	Customer experience Citizenship and community engagement Sustainable supply chain Labour standards and human rights Material standards
Governance Relevant strategic priorities: 	Stakeholder engagement Governance – Reporting and assurance Governance – Risk and opportunity Business ethics Reward scheme

^ Within PwC's limited assurance scope. Please see page 17 for further details.

a programme of engagement with suppliers this year to gain insight into where supply chains extend to and how human rights are being protected.



Claudio Veritiero
Group Strategy and Corporate Development Director



Alan Smith
Director of Group Corporate Responsibility

“Innovation and improvement are one and the same in terms of sustainability. We need to explore new materials, methods and processes across our operations that can deliver savings and efficiencies to our customers.”

Progress	2020 target
34% reduction in the accident incidence rate (AIR). Reportable incidents (UK) declined from 120 to 82 [^]	Zero AIR
Engagement increased from 54% in 2014 to 60% in 2016	75% employee engagement
Graduate diversity ratio has improved to 76:24 male:female. Overall Group ratio is 77:23. Further work is required to measure trainee and apprentice diversity	70:30 male:female ratio for graduate, trainee and apprentice recruits
Further investment in back-office systems to allow for accurate recording and reporting	5 training days per employee
Phase one of the development of Kier’s social value calculator has been completed leading to a significant increase in value and hours (272,701 [^]) recorded	10% additional social value created
27.4% relative reduction achieved to 36.6tCO ₂ e per £m revenue [^] (Scope 1 and 2)	10% relative reduction from 2014 baseline
Construction waste increased to 9.4m ³ per £100k revenue. Re-use and recycling improved to 86%	30% relative reduction from 2014 baseline
Water usage benchmark established	10% reduction from 2015 benchmark
35 Biodiversity Interest Group (BIG) challenges completed, or one per £120m of revenue	1 BIG challenge/£50m of revenue
All Environmental Incidence Rate (AEIR) benchmark established	25% reduction in AEIR from 2015 benchmark
A satisfaction rate of 90% was achieved [^]	90% customer satisfaction
76% (38.2/50) in the Considerate Constructors Scheme (CCS)	80% (40/50) average score in CCS
2,029 individuals from our supplier and sub-contractor base are registered with the Supply Chain Sustainability School (SCSS)	Partners engaged in the SCSS
Responsible Procurement and Anti-slavery and Human Trafficking policies published	Meet core principles of UN Declaration of Human Rights
First tranche of material standards agreed	100% compliance with Kier material standards
87% in the Business in the Community (BITC) CR Index	Annual independent review by BITC
Global Reporting Initiative (GRI) G4 reporting guidelines adopted	Integrated reporting to GRI G4 reporting guidelines
Ongoing	Quantify risk across non-financial measures
Achieved – new target agreed on Kier’s Code of Conduct	Train all employees on the Code of Conduct
Kier remains on track to review its remuneration policy – see remuneration report on page 66 of the 2016 Kier Annual Report	Reward scheme for non-financial performance

Kier at a glance

Strength and breadth of capabilities

We can help clients to finance, plan, design, construct and maintain their assets. The Group's business model enables us to address complex opportunities through our strong and strategic client relationships.

Property

The Property division encompasses property development and structured finance. The division operates across a number of sectors but particularly the industrial, commercial, retail and leisure sectors as well as the public sector.

- Activity focused on UK regions
- Principally non-speculative focus or in joint venture

Opportunities

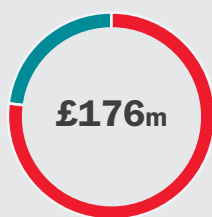
- >£1bn pipeline
- Greater local authority interactions

Our capabilities

- Asset management
- Bespoke occupier solutions
- Joint ventures
- Owner occupiers
- Partnerships
- Project investment
- Regeneration
- Structured finance

Revenue¹

- Property development – 77%
- Structured finance – 23%



Underlying operating profit²

£21.4m

(2015: £22.7m)

Average capital⁴

£(94)m

(2015: £(83)m)

No. of employees

81

(2015: 81)

Residential

Kier Living, our residential business, includes affordable mixed tenure housing partnerships and private house building. Its clients include local authorities, housing associations and the private rented sector.

- 100% regional
- Private, affordable and mixed tenure housing
- Average sales price <£250k
- Mixed tenure pipeline >£600m

Opportunities

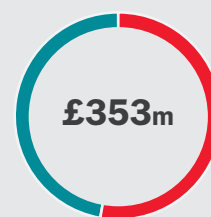
- Shortage of UK housing
- Increasing demand for affordable housing

Our capabilities

- Affordable housing
- Living space
- Mixed-use communities
- Private residential housing
- Regeneration

Revenue

- Mixed tenure housing – 53%
- Private house building – 47%



Underlying operating profit²

£20.3m

(2015: £11.2m)

Average capital⁴

£(231)m

(2015: £(263)m)

No. of employees

608

(2015: 613)

¹ Group and share of joint ventures.

² Stated before non-underlying items. See note 4 to the consolidated financial statements.

³ Continuing operations.

⁴ Equates to net debt.

⁵ Restated to reflect the re-allocation of Mouchel Consulting from the Services division to the Construction division.

Construction

The Construction division comprises the UK regional building, UK infrastructure and international businesses. Kier is a sector leader in the education, health, power and transport markets.

- UK regional focus
- High-volume, low-value building projects
- Large scale engineering projects
- Strong positions on long-term frameworks
- Cross-sector breadth
- Broad client base

Opportunities

- Leading UK regional builder
- Significant UK building and infrastructure pipeline
- Middle East opportunities for Expo 2020

Our capabilities

- Building
- Civil engineering
- Construction management
- Engineering design
- Interiors and refurbishment
- Mechanical and electrical
- Rail services
- Technical services

Revenue^{1,3}

- Building – 64%
- Infrastructure – 23%
- International – 13%



Underlying operating profit^{2,3}

£47.4m

(2015⁵: £38.4m)

Order book

£3.4bn

(2015⁵: £3.5bn)

Underlying operating margin^{2,3}

2.3%

(2015⁵: 2.2%)

No. of employees

8,067

(2015: 5,856)

Services

The Services division comprises strategic and local authority highways maintenance, utilities, housing maintenance, Kier Workplace Services and environmental services. Kier provides essential, every-day services to our clients and communities.

- A leading position in highways maintenance
- Utilities presence maturing
- One of the market leaders in housing maintenance
- Facilities management presence growing

Opportunities

- Greater infrastructure maintenance given historical low level of expenditure
- Increased and more involved outsourcing

Our capabilities

- Highway maintenance and management
- Utilities services
- Waterway services
- Housing maintenance
- Facilities management
- Business services
- Energy management services
- Environmental services

Revenue¹

Infrastructure services

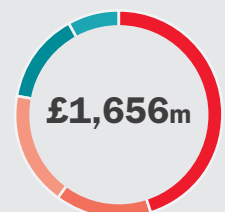
- Highways – 45%
- Utilities – 15%

Property services

- Housing maintenance – 18%
- Kier Workspace Services – 14%

Other

- Environmental services – 8%



Underlying operating profit²

£86.1m

(2015⁵: £57.3m)

Order book

£5.3bn

(2015⁵: £5.8bn)

Underlying operating margin²

5.2%

(2015⁵: 4.6%)

No. of employees

11,193

(2015: 17,021)

People and communities

Our vision is to provide safe and sustainable outcomes for our employees, supply chain partners, clients and communities.

Zero accident incidence rate (AIR)

Kier aims to deliver an AIR of zero by 2020 and made significant progress in the year by improving from a rate of 319 to 211. This is due to a continued focus on the culture of safety and encouraging everyone to take responsibility. During the period reportable incidents (UK) also declined from 120 to 82[^] reflecting this focus.

Highlight

We refreshed our Visible Leadership programme with all directors and senior managers expected to conduct a minimum number of site visits, delivering 4,729 in the year against a target of 3,600.

We established all accident incidence rate (AAIR) reporting to measure incidents resulting in more than one day's absence from work. This indicator allows us to more fully understand the causes of harm within our business and analyse trends with much more granularity. We gain greater insight into the causes of more serious incidents and this allows us to put control measures in place that will support our headline aim of a zero AIR by 2020. Our benchmark AAIR is 668 and we have set ourselves a target to reduce this by 25% per annum and reduce the amount of lost productive time.

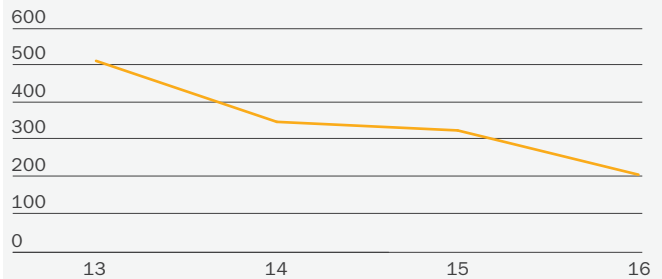
Wellbeing targets were introduced for employees and those connected to our business so we can reduce the impact of lost time through illness or work-related injuries.

Our aim is for a 25% reduction in sickness absence rates and to see referrals through our occupational health team within 10 working days, achieving 81% in the year.

In the year our property, business services and mining business units achieved an AIR of zero. This is a significant achievement and a step towards our Group target.

34% reduction in AIR, the Health and Safety Executive benchmark of safety performance.

Zero accident incidence rate



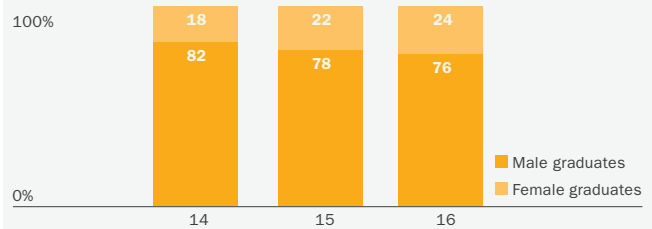
Diversity

The sustainable growth of Kier will be reliant on attracting and retaining the best talent. We operate in sectors where skills are scarce, the market is highly competitive and new disruptive technologies could fundamentally change the nature of the work that we do. A balanced business, which makes the most of the diversity of talent and experience available to us will ensure that we have the agility and resilience to deliver sustainable growth. We set a goal to improve the diversity mix of graduates, apprentices and trainees into Kier and to reflect the diversity mix of the communities in which we operate. One of our priorities is to encourage more women into our sector. We are also taking action to build an inclusive, open environment within Kier where everyone can thrive and bring their whole-self to work regardless of gender, ethnicity, sexual orientation or religious beliefs.

Highlight

Kier has a responsibility to contribute to creating inclusive pathways into employment for less advantaged communities and building skills within the UK. Kier partnered and led on a range of pathway initiatives including Making Ground – supporting ex-offenders into employment and our Work Skills Academy for the long term unemployed, and we have recently joined the Women in Science and Engineering (WISE) campaign.

Graduate recruitment % by gender

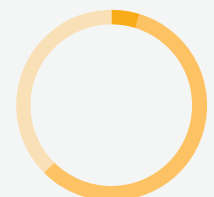


Diversity of employees

	Male	Female
Male – 77%		
Female – 23%		
All employees	14,564	4,328
Senior management	309	38
Directors	10	2
	83%	17%

Ethnicity of employees

- Black and minority ethnic – 5%
- White – 58%
- Not stated – 37%



Gender and ethnicity diversity data excludes casual and overseas operatives

[^] Within PwC's limited assurance scope. Please see page 17 for further details.



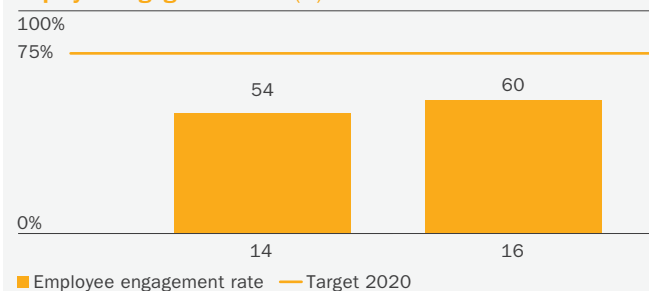
Employee engagement and retention

Employee engagement is fundamental to delivering a good service. Research shows that employees who feel connected to the business purpose are enabled to perform and grow and are more likely to stay in the business and deliver higher rates of customer satisfaction, business performance and sustainable growth.

Highlight

Our engagement survey takes place every two years and is run by Hay Group on our behalf. The employee engagement rate of 60% was a 6% improvement on the last survey and a significant step towards our target of 75% by 2020. The number of employees responding also increased from 57% to 71% from a population that was about 50% bigger.

Employee engagement rate (%)



87%

Our employee retention in the year remained in line with industry averages. We have established a programme of initiatives to help to retain key employees and the skills and experience they have. This is increasingly important in a competitive marketplace.

Training, education and apprenticeships

We are committed to building the skills and learning of all our employees so they are equipped with the skills to anticipate and adapt to future growth. As part of Vision 2020 we have committed to provide a minimum of five days' development per year/per employee by 2020 to include mentoring and training.

We have a comprehensive training and development offer that not only equips employees with the skills for the job they currently do but provides the development they need to progress further. We invest extensively in people leadership development at all levels, from front line supervisors to our most senior leaders.

Highlight

We are a member of The 5% Club and currently employ 1,170 across apprentices, graduates and trainees with plans to increase our numbers further. We take a group-wide approach to the recruitment and development of our early careers employees

so they receive dedicated support and can benefit from the breadth of opportunity across the Kier Group.

We continued to strengthen our back-office function to provide standard ways of working and best practice processes to enable our finance, HR, commercial and procurement functions to work collaboratively across all divisions. Taleo is our new recruitment and people management system which will help us to better track, record and deliver against the development needs of our employees. This will allow the robust reporting of our progress towards our target of five days' training per employee.

1,170

or 5.4% of Kier's employees are apprentices, graduates, sponsored students or in further education.



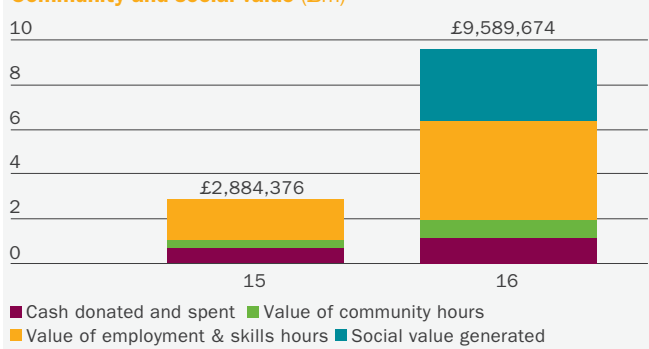
Society and community

Our target to generate 10% additional social value, measured as a proportion of Group turnover, is achieved through targeted spending of money to create positive economic ripple effects in the communities where we work. We have started to measure how employment and donation of time, resources and money to good causes contributes to this positive effect.

Highlight

During the year we launched the Kier social value calculator. This involved working with an external consultancy to understand the economic benefit created by Kier. We now use this understanding to capture and report progress towards our 10% target. In the year ended 30 June 2016 we have been able to track that we positively impacted on nearly 80,000 peoples' lives, employees gave 272,701[^] hours on community, employment and skills development and created £9.6m of social and community value. In the coming year we will begin to review how our supply chain relationships create wider value. We estimate the hours donated are worth £5,238,643[^].

Community and social value (£m)



2014/15 figure restated from £4.24m to £2.88m which was due to a malfunction of our reporting system.

Social value handbook

The Kier social value handbook is a resource for our employees and stakeholders. It explains how Kier creates wider benefits through the community projects we support, the schools we engage with, the jobs we create in our own business and support in the supply chain.

[^] Within PwC's limited assurance scope. Please see page 17 for further details.

Environment

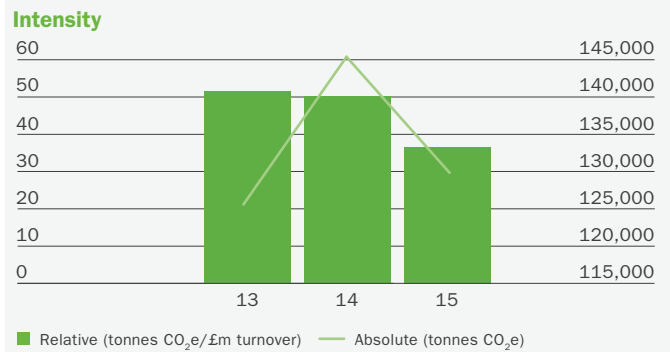
Our vision is to reduce our negative impacts by using the least resources possible, influencing asset design and creating processes to deliver projects more efficiently.

Carbon

Our total or absolute Scope 1 and 2 greenhouse gas emissions reduced by 15,551tCO₂e to 129,839tCO₂e[^]. This is equivalent to 10.7% year-on-year driven by reduced output at our surface coal mine and the sale of the Fleet & Passenger Services business, offset in part by increased emissions in the Residential division.

In relative terms emissions declined by 27.4% to 36.6tCO₂e per £m revenue[^]. The two main contributors were the acquisition of Mouchel with its low emissions to revenue ratio having a diluting effect; and the reduction in output from our surface coal mine which has had a high emission rate compared with revenue. A focus on energy efficiency also made a contribution.

Kier has achieved its 2020 target of a 10% reduction in emissions per £m revenue ahead of plan. A revised target will be set and we will continue to focus on improved energy efficiency and reducing fuel usage.



Reducing emissions – increasing efficiency

Reducing emissions has enabled Kier to reduce costs by over £500,000 during the calendar year 2015. Data covers 92% of our operations, excluding joint ventures and agreements where we do not have majority financial control.

99

CDP Score for 2015

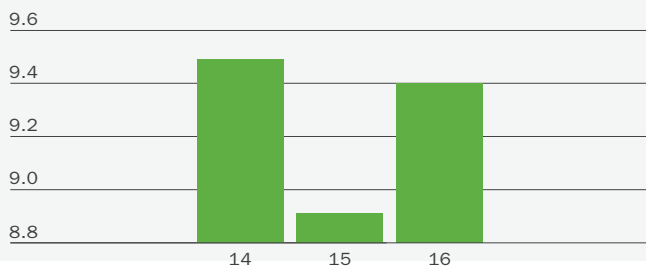
Kier makes an annual submission to the Carbon Disclosure Project (CDP) Climate Change Programme. In 2015 we improved our score from 89 to 99 which resulted in a place on the FTSE 350 Climate Disclosure Leadership Index (CDLI). Only the top 10% of participants make the CDLI.

Waste

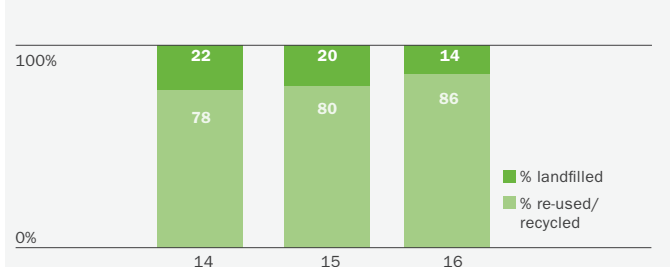
The amount of materials that Kier purchases is a direct cost to our business. A focus on reducing the amount of materials we use and waste we generate will make our business more efficient as well as achieving economic and environmental benefits. Our goal is a 10% reduction in construction material waste through reduced purchasing, less waste and more repurposing of surplus materials by 2020. In the

year construction material waste increased to 9.4m³ per £100,000 revenue and we recycled 86%. This compares with 8.9m³ in the previous year, of which we recycled 80%. Reporting is collated from a sample representing 37% of Kier Group by revenue. Kier has adopted reporting in m³ of waste and has restated data for previous years. The data has been calculated using a standard conversion factor from the Environment Agency.

Construction material waste m³/£100k



Construction material waste – diversion from landfill



Water

Kier committed to the introduction of water monitoring to understand our consumption and to establish a benchmark. In the year, based on a sample representing 28% of our consumption we identified 486,000m³ of water used at a cost of approximately £1.6m. This gives us a consumption rate of 156m³ per £m of revenue. While our water use is relatively modest in comparison with the fossil fuel and resource consumption of the Group, we know that positive action is important to our sectoral clients.

Generating a benchmark allows us to target reductions in consumption and cost savings, will help minimise our impact on the environment and is part of our overall approach to resource efficiency.

Water benchmark

This will be a key component of our approach to resource efficiency planning and was one of five themes in Kier's Environment Week.

Water Saving water - a valuable resource

We have a responsibility to save water - it makes sense environmentally and financially. A top-left starting point is to reduce water use by just a minute wastes between 8 - 22 litres of water. By following a few simple steps we can reduce our water use at our sites, offices and depots.

- Leak**
 - Check signs/leaks - report and repair them
 - Monitoring water use on a regular basis will enable you to know to the penny what's leaking
- Shower**
 - Turn off taps when not in use
 - Fix dripping taps or shower heads in workrooms
 - Don't allow hoses to run continuously - fit robust trigger guns
- Wash**
 - Fit hand-drying paper or sensorless hand dryers
 - Use hand-drying paper or sensorless hand dryers
 - Use hand-drying paper or sensorless hand dryers
- Concrete Washout**
 - Use concrete washout on site (e.g. by use of ConcreteSuckIt)
 - Use concrete washout with integrated wash-out collection tanks
 - Collect on site and pump back into concrete mixer for reuse at the batching plant
- Over Repayment**
 - Select the appropriate plant, using data to determine whether a fully automatic or a manual machine is the most appropriate
 - Check the appropriate plant, using data to determine whether a fully automatic or a manual machine is the most appropriate
- Hydrant**
 - Fit a hydrant valve or meter where it is used for fire systems
- Water Monitoring**
 - Check for leaks or water run-off and use it for foot washing, dust suppression or concrete washing
 - Consider installing a fully automated water harvesting system



[^] Within PwC's limited assurance scope. Please see page 17 for further details.



Biodiversity

Kier is a founding partner of the Biodiversity Interest Group (BIG) Biodiversity Challenge which is managed by the Construction Industry Research and Information Association. This encourages companies to create projects benefitting wildlife. Through the initiative, Kier is working to raise awareness of the importance of protecting and enhancing biodiversity in the built environment to all those who work in the construction industry. We encourage construction teams to collaborate with local communities to ensure long-term awareness and protection of local biodiversity. With our clients we promote the integration of biodiversity in green infrastructure initiatives such as the creation of diverse habitats along road margins. These can provide significant advantages for wildlife and also lead to economic advantages through reduced management requirements.

We will continue to promote biodiversity projects and report how many BIG Challenges we deliver in relation to our turnover, and also other enhancements that fall outside the scope of the scheme. Kier was awarded 35 BIG awards in the year, equivalent to one per £120m revenue.



Kier Highways

EM Highways, acquired as part of the purchase of Mouchel, won the overall BIG Biodiversity Challenge award in 2015 for the creation of species rich roadside verges on the A30 and A38 Exeter to Penzance roads. Species rich roadside grasslands can help to offset the decline in grasslands elsewhere and provide significant areas of habitat for bees and butterflies as well as many other plants and animals. This scheme also contributes to local authority biodiversity action plans.

All Environment Incidence Rate (AEIR)

Like safety, we have adopted an all incidence indicator as part of our focus to change the way we view and prevent environmental incidents. Understanding the causes of incidents and near misses allows us to identify trends and appropriate preventative measures that can stop them reoccurring.

The intention is to reduce the potential impact on the environment and reduce the risk of prosecution or fines, given that sentencing guidelines have recently been refreshed and strengthened.

Highlight

During 2015 we introduced a dashboard recording system and awareness training that allows our business streams to complete monthly reporting and recording. The improved recording system and awareness amongst employees is leading to better capture and reporting. The AEIR rate for Kier Group to the end of June 2016 is 167 and this benchmark will be monitored and reviewed with the aim of a 25% reduction year-on-year.

In 2013, KMI+, a consortium of which Kier is part, was engaged in an operation to decommission a temporary sodium hypochlorite dosing plant. This operation resulted in diluted sodium hypochlorite reaching the Bradshaw Brook and the death of several hundred fish.

In 2016 KMI+ pleaded guilty at Bolton Crown Court to this pollution incident and received a fine of £330,000.

Following this incident the procedures for decommissioning plant and equipment where hazardous chemicals are involved were strengthened.

Stear Marshes, Somerset

Kier was part of the team responsible for the £21m Steart Coastal Management Project – one of the UK’s largest.

The reserve is managed by The Wildfowl & Wetlands Trust and Kier continues to support the scheme by carrying out various voluntary activities such as the water vole surveys shown here.



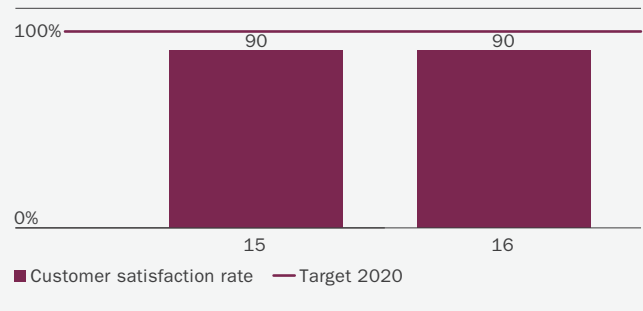
Marketplace

Our vision is to provide an excellent client and customer experience by setting high standards for responsible and ethical procurement with our supply chain partners.

Customer satisfaction rate

By delivering high quality projects and services to our clients and customers we enable ourselves to win more work and grow our business, providing employment for many thousands of people. High rates of client satisfaction are associated with increased profitability, better safety and better employee engagement. High levels of satisfaction also brings repeat business and enables the cross-selling of our services.

Customer satisfaction rate



Highlights

Over the year we continued to meet our target rate of 90% for customer experience[^]. We have also started to measure our net promoter score (NPS) and achieved +49 in the year, a very high rate. The focus will remain on customer satisfaction as a strategic indicator with an associated target. We also introduced a standard process across the Group including the businesses we acquired with the purchase of Mouchel.

90%[^]

Customer satisfaction rate of 90% achieved across the Group over the year, based on the results from 763 surveys (394 in 2015). This number of surveys represents 87% of our revenue for the year, excluding international operations.

+49

Our NPS remains high at +49 (c.f 52 in 2014). NPS scores range from -100 to +100. A score above +40 is considered high for the business to business sectors in which we predominantly operate.

Citizenship and community engagement

Our measure for being a thoughtful neighbour when operating in communities has for many years been based on the Considerate Constructors Scheme (CCS) – an independent scheme that benchmarks companies against a code of best practice. Kier registered 219 schemes in 2016, received 384 visits and won 46 national awards. Across all assessed schemes, Kier averaged a score of 76% (38.2/50) ahead of the national average by 5%, with our 2020 target being 80% (40/50).

As our business continues to grow, with less of our total business now being based on construction activities, the use of the CCS as a Group performance measure is being actively reviewed. While the CCS will always be appropriate for our construction-based activities it is less relevant to our services offering. The challenge for Kier is to identify what we may be able to adopt as a measure relevant to everything that we do.

Highlight

We published our new Group Code of Conduct. The new Code is being communicated to all employees through training, our induction process and our employee roadshows. The Code sets out what Kier expects from its employees, and also what they can expect from the Group.

CCS awards



- 7 Gold (1 joint venture award)
- 12 Silver (2 joint venture)
- 24 Bronze
- 3 Most Considerate Sites (2 joint venture)

76%

Group score in CCS (38.2/50)

Kier Group CCS Score
 2015: 77% (38.3/50)
 2014: 75% (37.6/50)
 2015 Industry average: 71% (35.5/50)

Sustainable supply chain

Our network supply of both goods and services stretches across the world. As a responsible business we have a duty to balance our economic performance with our ability to source goods and labour ethically. As a major contractor, we interact with many hundreds of small and medium-sized businesses ensuring that they are aware of our economic and ethical aims. One way that we do this is by supporting the Supply Chain Sustainability School, an independent organisation that provides free training and education to suppliers and subcontractors active in construction, housing, infrastructure and facilities management sectors.



The School uses the skills of its partners to help provide relevant guidance and advice for their supply chain partners. This is done via special interest groups. During the year we have been involved in the following:

- Modern Slavery – interpreting and highlighting how to identify and deal with the risk of slavery or human trafficking;
- Social Value – helping people to understand how we create value through our day-to-day operations; and
- Horizon Group – a partnership between industry and academia providing research leads on new and novel topics and creating a training package on ethical business.

2,029

individuals from suppliers and subcontractors to Kier are registered with the Supply Chain Sustainability School.

[^] Within PwC's limited assurance scope. Please see page 17 for further details.



Labour standards and human rights

In 2015 the UK Government published the Modern Slavery Act, which places a duty on companies to make a public statement on the steps taken to minimise the possibility that slavery or human trafficking is happening in their own business or in their supply chain. Through Kier's management of its supply chain we believe that this risk can be effectively managed and we have been putting in place a number of improvements to pre-qualification and audit processes for supply chain partners to make this as robust as possible. We worked with Responsible Solutions, an independent consultant, to review our audit protocols against recognised best practice at our responsible procurement workshop in April 2016. Our revised Responsible Procurement and Anti-slavery and Human Trafficking policies have been published. We are committed to achieving the Chartered Institute of Procurement & Supply (CIPS) Corporate Ethics Mark. Part of this process is for our procurement leads and managers to undertake the CIPS training on corporate ethics, and to promote this to our wider procurement team.

Highlight

The Construction Industry Research and Information Association (CIRIA), has been working with representatives from across the sector on a responsible sourcing handbook. Kier has been a contributor to this handbook which is due to be published in early 2017. The handbook aims to give practical guidance and examples, including product and materials sheets that can be used to help make informed choices.

Kier has contributed to the CIRIA Responsible Sourcing Handbook



Sharing knowledge – building best practice

Material standards

Given the scale of our business and the number of products that we buy, our approach to identifying and managing items that carry the highest risk has to be pragmatic. Our intention is to balance environmental and social issues against the needs of our business and the specification of our clients. We also need to ensure that the quality of materials and products that we source is also of the right standard. Part of our procurement strategy is looking at how we can develop more direct relationships for products from overseas and in this undertaking we are working with partners to make sure that we are able to comply with our minimum standards.

During the year our Group Procurement Director and Head of Category Management began this process of vetting potential direct sourcing relationships by visiting a number of suppliers in China. As we develop this approach it is likely we will then embed employees in the source countries to constantly monitor suppliers and ensure that they comply with our requirements.

Highlight

We have identified the first seven categories where we have put in place 'Material Minimum Standards'. These set the basic requirements that Kier will apply when responsible for specifying materials. We will seek to influence designers and clients where we are not the specifiers. These standards will now form part of our safety, health and environment management system. We will continue to engage with industry forums in development and review of material/commodity best practice and application of lessons learnt to future projects and contracts for long-term benefit.



In the year Kier established minimum standards for various categories of goods that we procure.

- Clothing
- Metals and steelwork
- Metal fixtures
- Natural stone
- Recycled aggregate
- Timber
- Topsoil.

Kier has published its policy and statement on Anti-slavery and Human Trafficking at www.kier.co.uk

<http://www.kier.co.uk/modern-slavery>

Governance

Our vision is to continue working with our stakeholders to identify the material issues for our business and in our relationship with them.

Business ethics

Business ethics was noted by our shareholders as being important in influencing investment decisions. A strong ethical approach to running a business helps to limit the risks that businesses face from economic, social and environmental perspectives and a Code of Conduct for employees needs to be available. Kier's new Code brings together under one banner a number of revised policies - for example anti-bribery and corruption, environment, diversity and safety. This has been communicated to all our employees. Kier's confidential and independent helpline also gives employees a channel to raise any concerns.

Highlight

In the year 138 'whistleblowing' items were notified to the Group compliance team, a 9% decrease on the previous year. All were responded to within our target time. We have reviewed our target for this item and have set a goal to train all of our employees on the new Code, and maintain this level over time allowing for churn of people in the business.

Code of Conduct

Kier's Code of Conduct sets what employees can expect from the business they work for and what is expected of them.

Our Code is supported by Kier's values of being collaborative, enthusiastic and forward-thinking.



Stakeholder engagement

During the 2016 financial year Kier has committed to undertake regular engagement with its stakeholders. In September 2015 Kier brought together a group of institutional shareholders to review and comment on 'Responsible Business, Positive Outcomes' (RBPO) – the new Group strategy for a sustainable business. The objectives were to demonstrate how Kier's new sustainability strategy had been integrated into the Group's strategy for growth and to understand the value investors place on non-financial issues. As part of the discussion they were asked to identify which issues were of most material importance to them in making judgements regarding their investment in our business.

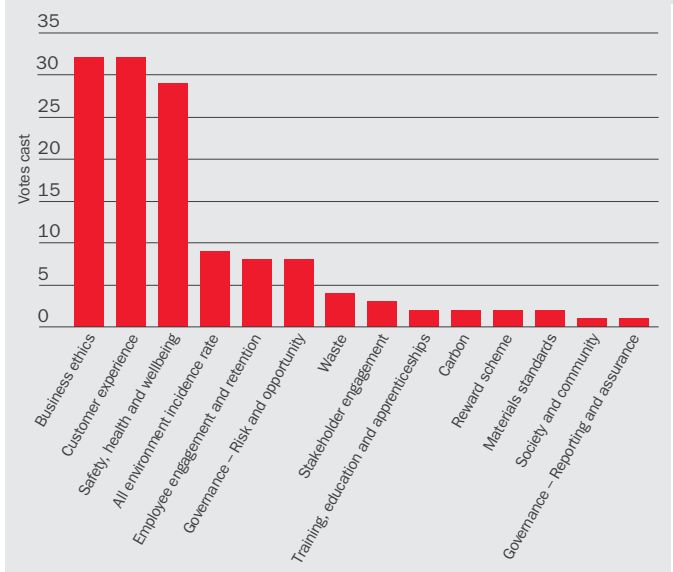
Three items identified by this group as the most critical were:

- Business ethics;
- Customer experience; and
- Safety, health and wellbeing.

Kier's approach to this dialogue was recognised by Standard Life as best practice in shareholder engagement.

Consequently Kier has also helped Business in the Community (BITC) prepare best practice guidance for any company wishing to undertake shareholder engagement on matters of sustainability.

Shareholder perspectives of materiality



Stakeholder Engagement

During 2015 Kier held engagement meetings with clients (March) and institutional stakeholders (September).





Governance – Reporting and assurance

Kier has adopted the use of the Global Reporting Initiative's G4 internationally recognised reporting guidelines. This helps us to structure our report and allow readers to understand what issues we consider to be material in our business. We now use the G4 guidelines and have published a separate summary document which indexes all the relevant disclosures. This can be found on our website at www.kier.co.uk in the corporate responsibility (CR) section.

We use the BITC CR Index to help us benchmark how effectively we have embedded various non-financial performance measures into our business strategy, and understand how we compare to our peers. In 2016 we maintained our performance at 87% against a background of more detailed and demanding questions – see page 15 of this report.

BITC
87%



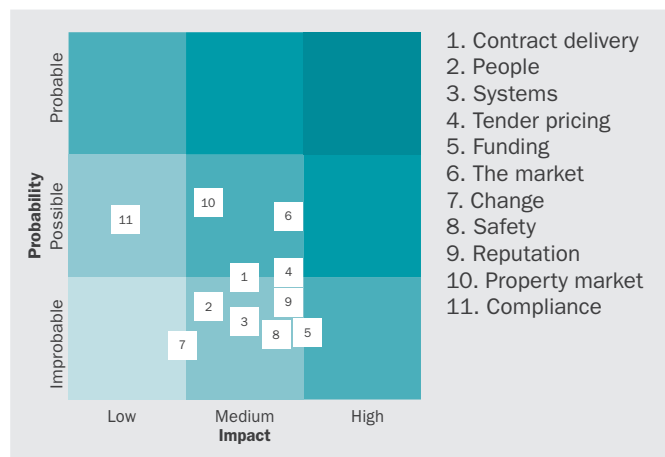
BITC benchmarks Kier's approach to embedding our non-financial performance into our business strategy through their CR Index. In 2016, we maintained our performance at 87% against a background of more detailed and demanding questions which cover areas such as:

- Community
- Social impact
- Environment
- Workplace
- Marketplace
- Disclosure.

Governance – Risk and opportunity

The requirement for strong governance of risk, and its reporting for listed companies constantly evolves, with updates to the Companies Act (2006) requiring further disclosure of non-financial information, or the Corporate Governance Code direction to produce a long-term viability statement. Kier recognises that non-financial issues are an integral part of our review of risks and opportunities. Our strategy for growth, Vision 2020, directly reflects this with the core strategic priorities recognising risk-profiled non-financial matters, and others further developed in RPBO, Kier's strategy for a sustainable business. Some of these are driven by compliance such as the Modern Slavery Act (2015) and consequently we strengthened our audit processes for our supply chain; geopolitical matters such as the recent agreement on climate change reached in Paris at COP21 may necessitate a change in how we approach our strategy on energy efficiency; macroeconomic issues such as Brexit may influence our approach to the marketplace.

Depending on our view of such issues then Kier has to reflect and review its strategic approaches accordingly so we can take due account of the risks and opportunities presented in a changing world.



Risk mapping

The nature of the industries and the business environment in which the Group operates means that its operations are subject to a number of inherent risks and uncertainties. The heat map (above) shows the principle risks under review by Kier. It indicates the net risk position after mitigation actions have been considered.

Reward scheme

Kier remains on course to review its remuneration policy in line with the commitments made in RBPO. No changes will be proposed at the 2016 annual general meeting (AGM) but one of the principal areas of focus for the Remuneration Committee in the 2017 financial year will be to review the existing policy and consider any changes to ensure that it continues to incentivise the delivery of Vision 2020. The Committee will engage with shareholders to ensure that their views are reflected in the revised policy. In addition Kier has extended its bonus scheme across management grades so that more of our senior managers are now directly incentivised in helping the business achieve the outcomes in Vision 2020.

Kier also offers wider benefits and rewards to employees. For example we have KierPlus, which allows employees to take advantage of reduced costs from many high street retailers and leisure outlets. Employees can also access substantial discounts on a wide range of products, used regularly by Kier, from builders' merchants.

The Kier Foundation

The Kier Foundation is an independent charity established and supported by Kier Group and its employees.

Highlights

- Raised over £500,000 for charity partner, Macmillan Cancer Support
- Winner of the Best Corporate Partnership award from the Institute of Fundraising (East Anglia)

During the last two years Kier's fundraising efforts have been focused on its charity partnership with Macmillan Cancer Support, and in that time Kier colleagues have raised over £500,000 for the charity. The Kier Foundation supports employees and Kier businesses in carrying out a range of fundraising activities through a calendar of events that support both The Kier Foundation and its charity partnership.

The money raised through the partnership with Kier could fund the equivalent of ten years of nursing hours, which could benefit 1600 individuals directly and their friends and family, all of whom can get support.

As well as supporting Kier's charity partnership, employees are encouraged to support local and national charities close to their hearts. In the year 166 charities were supported through the employee support funding scheme, which allows each Kier colleague to apply for additional sponsorship from The Kier Foundation. Total donations made by The Kier Foundation in the year were £326,765[^].

The Kier Foundation is an independently registered charity, and is completely self-funded. Its regular source of income is the employee-only lottery, the Kier Winners' Club, which costs the equivalent of £1 a week to members and splits all income equally between charitable donations and employee prize money. Last year, the Winners' Club distributed £76k of prize money, with the same amount going to The Kier Foundation for charitable donations.

The largest source of income for The Kier Foundation however, remains the '£10K Board Challenge' which tasks each regional Board of directors within Kier to raise £10,000 during the year. This year saw businesses hosting events such as golf days, endurance challenges and teams climbing Mount Snowdon. During the year the £10K Board Challenge raised £108k for The Kier Foundation.

New corporate partner selection process

The Kier Foundation administers the Group's charity partner on its behalf and commits to reviewing this every two years. After an incredibly successful partnership with Macmillan Cancer Support, a decision was made to support Alzheimer's Society from 1 July 2016. Over the next two years Kier has committed to fund a unique research project and dementia support worker hours.

Over the course of the partnership, Kier and Alzheimer's Society hope to work together to change the dementia landscape.

Macmillan's 'Men and Cancer' campaign

Kier was one of five partner organisations from the construction, services and home improvement sectors that worked with Macmillan to raise cancer awareness in men. In recognition of the fact that British men are 60% more likely to develop cancer and 70% more likely to die from the disease than women, Kier worked with Macmillan to try and raise awareness of the help and support that is available.

As an industry, some 80% of our workforce is comprised of men, meaning that we have good access to this hard to reach demographic. The campaign's unique website tracked that people spent an increased amount of time on there, showing the content was relevant and engaging for men accessing the information.

Luke's Story

When Luke (pictured right with his son) began having stomach pains, he said he "did the typical bloke thing of ignoring it. That's how I was brought up." Thankfully his wife Lisa managed to persuade him to see a doctor, and he was diagnosed with stage four bowel cancer. The diagnosis left Luke feeling isolated from his friends and had a huge impact on his finances.

Macmillan chose to share Luke's story as part of the male cancer campaign to bring the cause to life and highlight how its services help to improve the lives of many people affected by cancer. Without the support of Theresa, Luke's Macmillan nurse, he might not be sat here today.



[^] Within PwC's limited assurance scope. Please see page 17 for further details.

Benchmarking our performance

Understanding our performance helps us identify how we can improve.

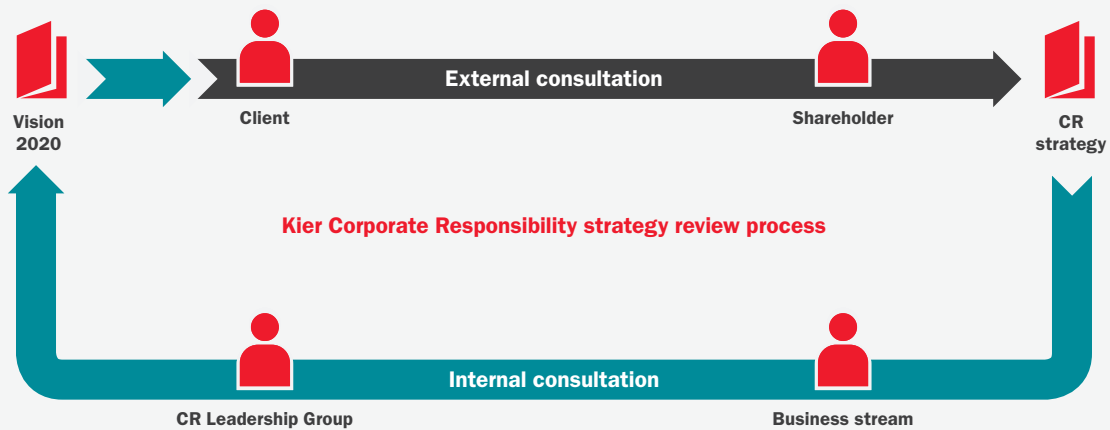
Global Reporting Initiative (GRI)

What is it?

Kier has chosen to structure its reporting to align with the GRI framework. This independent framework has grown and evolved over many years with the input of many independent stakeholders. The GRI framework sets out what is thought to be best practice criteria in reporting on economic, social and environmental themes. To aid comparability between reports from different sectors each criterion set out by GRI is clearly defined.

Why do we use it?

Using GRI allows us to communicate relevant, clear, balanced and accurate information providing greater transparency on our performance, as well as benchmarking against past performance. Kier recognises the value of using the GRI framework for reporting as it assists in the process of improved reporting and disclosure by identifying issues in a standardised way.



Business in the Community (BITC)

BITC Corporate Responsibility (CR) Index – What is it?

As Kier reports to external audiences on our progress with Vision 2020, our five-year strategy for growth, we set a number of clear performance indicators to help communicate with our stakeholders. The measure chosen to gauge our delivery of sustainable business is the BITC CR Index.

Why do we use it?

We use the BITC CR Index to review, improve, measure and report on our business strategies that are core to being a responsible business. It provides an opportunity to look closely at our corporate strategy, integration and management of our community, environmental, marketplace and workplace issues and monitor the environmental and social impact we have on the communities in which we work and live.

BITC performance diagram

The BITC CR Index allows us to compare our performance against that of our peers and other significant blue chip companies which participate. It is an aspect of the materiality review that we undertake on our non-financial indicators within RBPO – our strategy for a sustainable business.



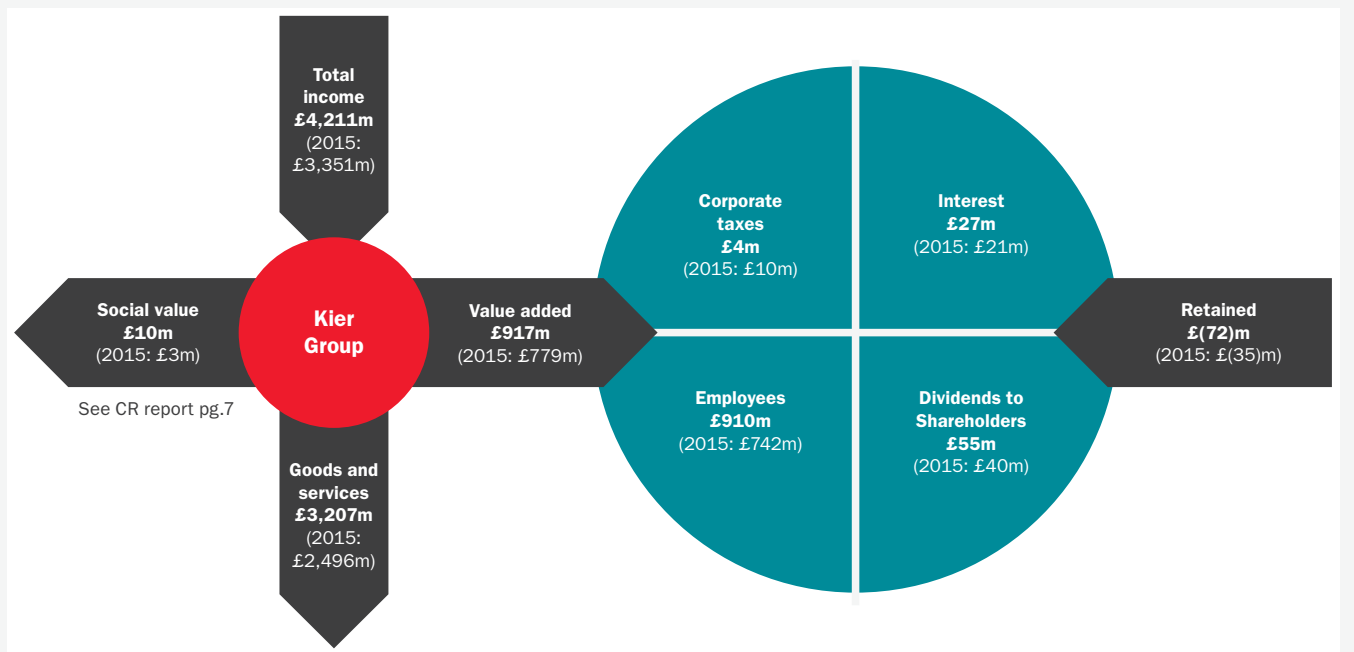
Benchmarking our performance continued

Assessing our contribution to economic and social value

Kier has been developing processes and tools to allow us to better quantify the wider benefits that RBPO will bring to both our business and wider society.

We recognise that through our normal day-to-day business we generate a return to the economy and also a wider social impact (see page 7 of this report).

We will continue to develop this approach so we can gain a better understanding of how action on safety, health, retaining employees, improving engagement, reducing waste and use of fossil fuels, and other business efficiencies will all contribute to enhanced profitability for the Group and a stronger investment proposition for shareholders.



Values have been rounded.

Independent Limited Assurance Report to the Directors of Kier Group plc

The Board of Directors of Kier Group plc (Kier) engaged us to provide limited assurance on the information described below and set out in Kier's Corporate Responsibility Report 2016 for the year ended 30 June 2016.

Our conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Selected Information for the year ended 30 June 2016 has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This conclusion is to be read in the context of what we say in the remainder of our report.

Selected Information

The scope of our work was limited to assurance over the information marked with the symbol ^ in Kier's Corporate Responsibility (CR) Report 2016 (the "Selected Information").

The Selected Information and the reporting criteria against which it was assessed are summarised below. Our assurance does not extend to information in respect of earlier periods or to any other information included in the Kier CR Report 2016.

The Selected Information consists of:

- Time (hours) spent by staff on community development by man hours and man days;
- Monies donated by The Kier Foundation through sponsorship and other fund raising activities;
- UK RIDDOR accident total;
- Scope 1 and 2 GHG emissions; and
- Client satisfaction & client experience.

We assessed the Selected Information using Kier's reporting criteria as set out at www.kier.co.uk/corporate-responsibility/downloads¹.

Professional standards applied and level of assurance

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' and, in respect of the greenhouse gas emissions, in accordance with International Standard on Assurance Engagements 3410 'Assurance engagements on greenhouse gas statements', issued by the International Auditing and Assurance Standards Board. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

Our independence and quality control

We applied the Institute of Chartered Accountants in England and Wales (ICAEW) Code of Ethics, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply International Standard on Quality Control (UK & Ireland) and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional Standards and applicable legal and regulatory requirements

Our work was carried out by an independent team with experience in sustainability reporting and assurance.

Understanding reporting and measurement methodologies

The Selected Information needs to be read and understood together with the Reporting Criteria, which Kier is solely responsible for selecting and applying. The absence of a significant body of established practice on which to draw to evaluate and measure non-financial information allows for different, but acceptable, measurement techniques and can affect comparability between entities and over time. The Reporting Criteria used for the reporting of the Selected Information are as at 30 June 2016.

Work done

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information. In doing so, we:

- made enquiries of Kier's management, including the CR team and those with responsibility for CR management and group CR reporting;
- evaluated the design of the key structures, systems, processes and controls for managing, recording and reporting the Selected Information.
- performed limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported; and
- considered the disclosure and presentation of the Selected Information.

Kier's responsibilities

The Directors of Kier are responsible for:

- designing, implementing and maintaining internal controls over information relevant to the preparation of the Selected Information that is free from material misstatement, whether due to fraud or error;
- establishing objective Reporting Criteria for preparing the Selected Information;
- measuring and reporting the Selected Information based on the Reporting Criteria; and
- the content of the CR Report 2016.

Our responsibilities

We are responsible for:

- planning and performing the engagement to obtain limited assurance about whether the Selected Information is free from material misstatement, whether due to fraud or error;
- forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- reporting our conclusion to the Directors of Kier.

This report, including our conclusions, has been prepared solely for the Board of Directors of Kier in accordance with the agreement between us, to assist the Directors in reporting Kier's corporate responsibility performance and activities. We permit this report to be disclosed in the Corporate Responsibility Report 2016 for the year ended 30 June 2016 to assist the Directors in responding to their governance responsibilities by obtaining an independent assurance report in connection with the Selected Information. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Directors and Kier for our work or this report except where terms are expressly agreed between us in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
1 Embankment Place London
WC2N 6RH
16 September 2016

¹ The maintenance and integrity of Kier's website is the responsibility of the Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the reported Selected Information or Reporting Criteria when presented on Kier's website.

Gareth Rondel
Head of Group Corporate Responsibility

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