



Kier Group

Interim results for the six months ended 31 December 2017

15 March 2018

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Haydn Mursell

Chief Executive

Agenda

- Overview
 - Highlights
 - Vision 2020 progress
- Financial and operational overview
- A market and client-led strategy
- Summary and outlook

Highlights

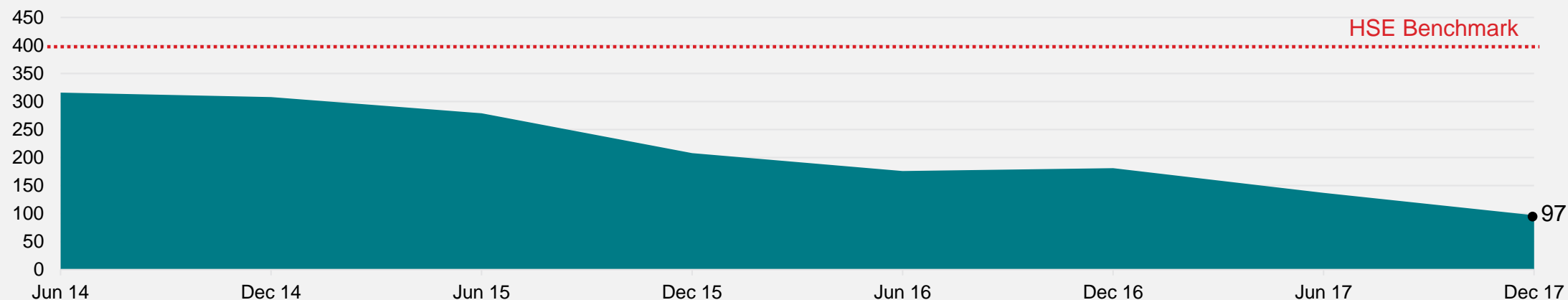
- Good first half performance
- Two-year portfolio simplification concluded
- Investment levels in Property and Residential sufficient to deliver Vision 2020 targets
- Robust order books and pipelines
 - Increased future visibility
- Interim dividend of 23.0p per share
- On course to deliver double-digit profit growth in 2018 and on track with Vision 2020 goals

On track with Vision 2020 targets

Key metrics	2020 target	December 2017
Annual average operating profit growth	>10%	On target
Property – ROCE	>15%	Ahead
Residential – ROCE	to 15%	Improving and on track
Construction – EBITA	to 2.5%	On track
Services – EBITA	to 5.0%	On track
Net debt: EBITDA	1:1	Achieved
Dividend cover	2x	Improving and on track

Corporate responsibility

Accident incidence rate (AIR) – December 2017



Safety

- Industry-leading AIR <100
- Workforce health and wellbeing improved

Customer experience

- 91% recommend us

Investment in Oracle

- Finance, HR, Procurement

Environment

- 30x30 energy strategy launched and in progress

Training and development

- Active member of the 5% Club
- 'Shaping your World' campaign launched to improve the image of the industry

Market-leading positions

Strong long-term fundamentals



Invest, build and maintain all asset classes

Repeat clients and clients working with 2+ businesses > 50% of revenue



Bev Dew

Financial and operational review

Financial highlights

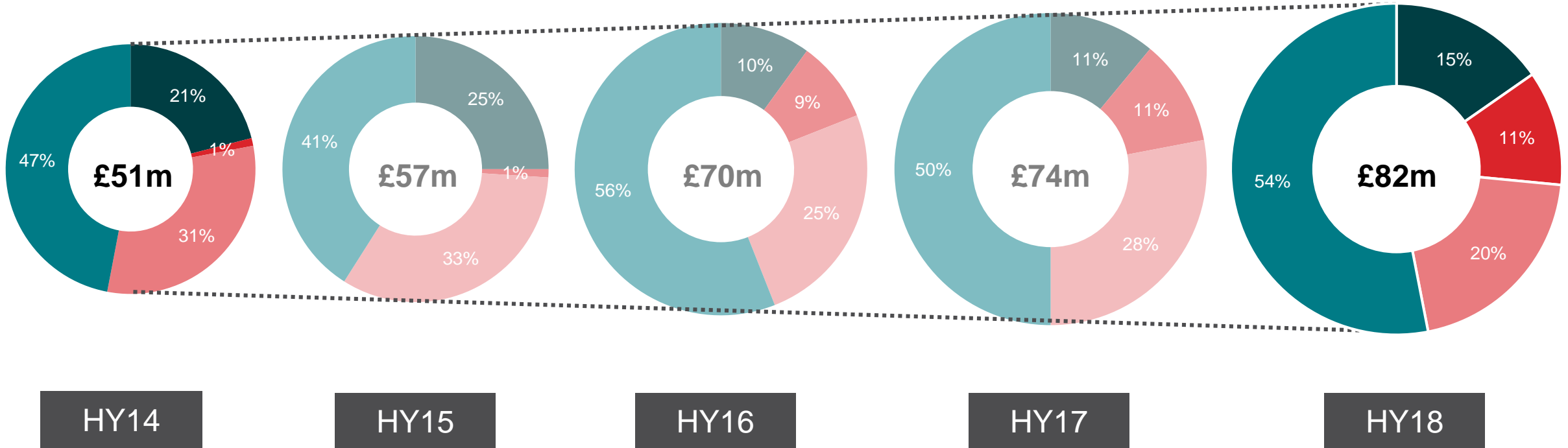
- Good performance in line with management expectations
- Operating profit¹ of £60.0m up 5%
- Earnings per share¹ of 41.0p up 3%
- Net debt of £239m in line with expectations
- Order book of c.£9.5bn with potential extensions of c.£2.5bn
- Interim dividend of 23p up 2%

¹Arising on continuing operations, stated before non-underlying items.

Operating profit¹

Progression towards Services

■ Property
 ■ Residential
 ■ Construction
 ■ Services



¹ Arising on continuing operations, stated before non-underlying items, excluding corporate costs.

Income statement

EPS and dividend growth

	Six months to 31 Dec 2017 £m	Six months to 31 Dec 2016 ³ £m	Change %
Revenue ¹	2,154	2,001	+8
Operating profit ²			
Property	12.2	7.7	+58
Residential	8.7	8.1	+7
Construction	16.7	20.8	-20
Services	44.4	37.2	+19
Corporate	(22.0)	(16.5)	+33
Underlying operating profit	60.0	57.3	+5
<i>Underlying operating profit margin</i>	2.8%	2.9%	
Net finance cost ²	(11.2)	(10.2)	+10
Profit before tax ²	48.8	47.1	+4
Basic earnings per share ²	41.0p	39.7p	+3
Interim dividend per share	23.0p	22.5p	+2

¹Group and share of joint ventures for continuing operations.

²Arising on continuing operations stated before non-underlying items.

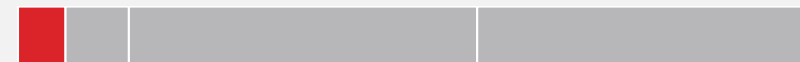
³Restated to classify Biogen as discontinued.

Property performance

Stable capital generating continued long-term strong returns

Financials

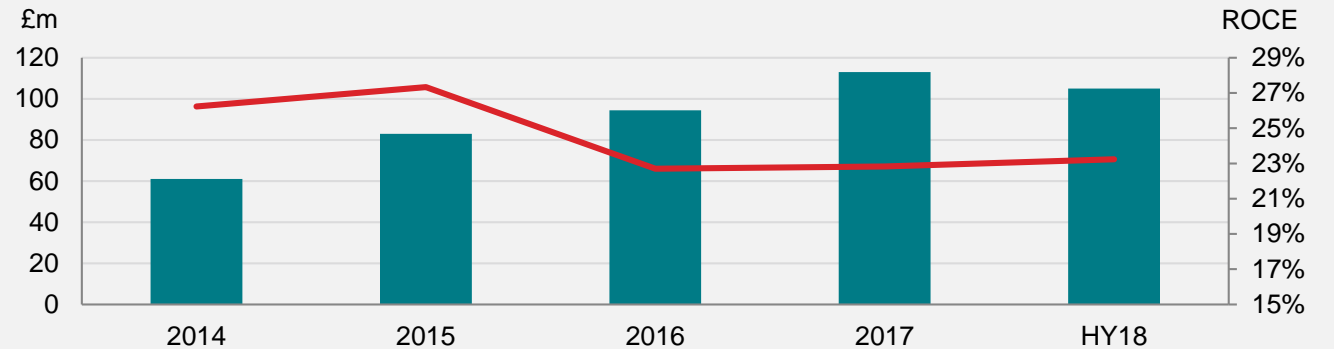
Revenue¹



Operating profit¹



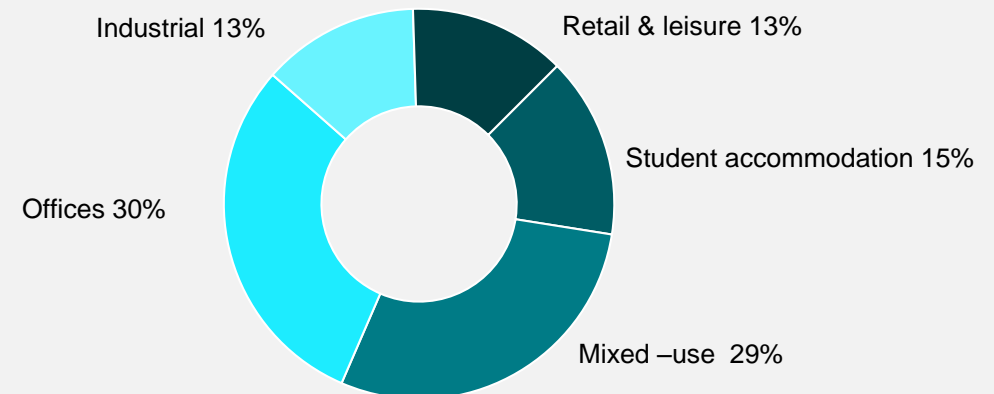
ROCE & average capital employed



Operational highlights

- 8 year pipeline £1.5bn GDV
- Average capital employed £105m
- ROCE stable 23%
- Well-diversified end-market exposure
- Regional bias outside London

Equity invested c.£200m



¹ Group and share of joint ventures from continuing operations

Residential performance

Stable capital with ROCE increasing

Financials

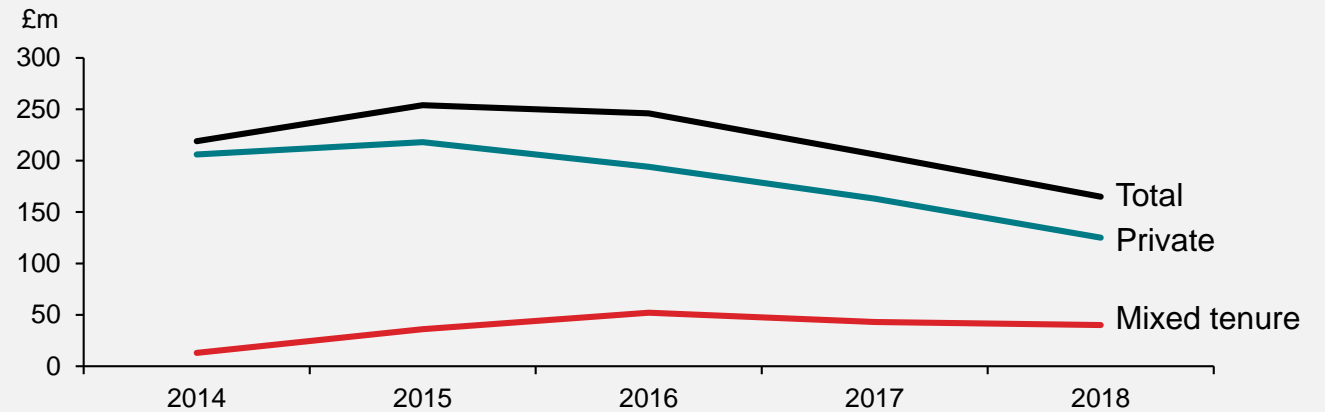
Revenue¹



Operating profit¹



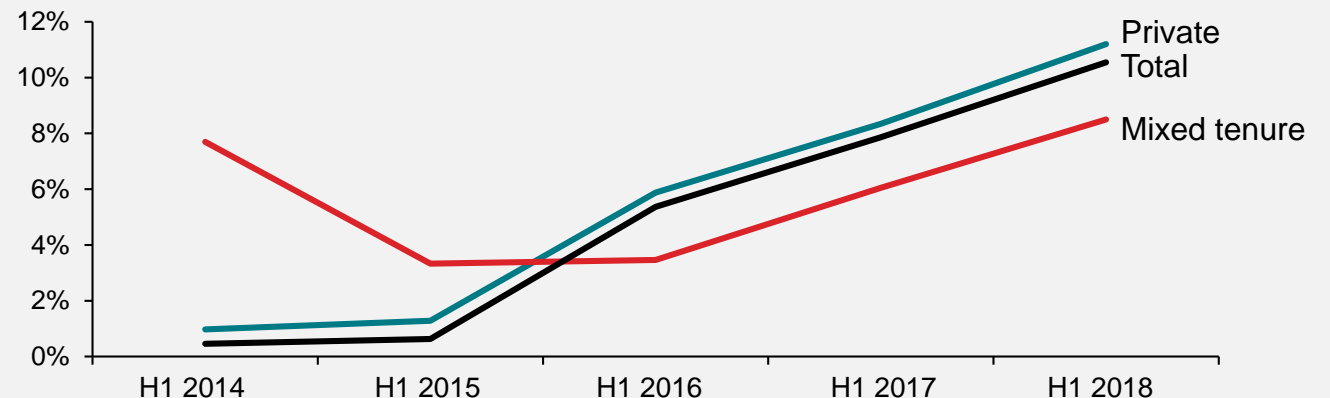
Average capital employed



Operational highlights

- 3 year land bank, equity invested c.£300m:
 - Private led units c.2,700
 - Mixed tenure led units c.1,600
- 965 units completed
- Growing mixed tenure land led strategy
 - Mixed tenure pipeline £600m
- ROCE 11%

ROCE



¹ Group and share of joint ventures

Construction performance

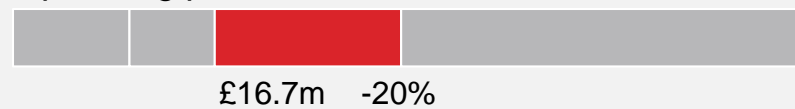
Robust order book

Financials

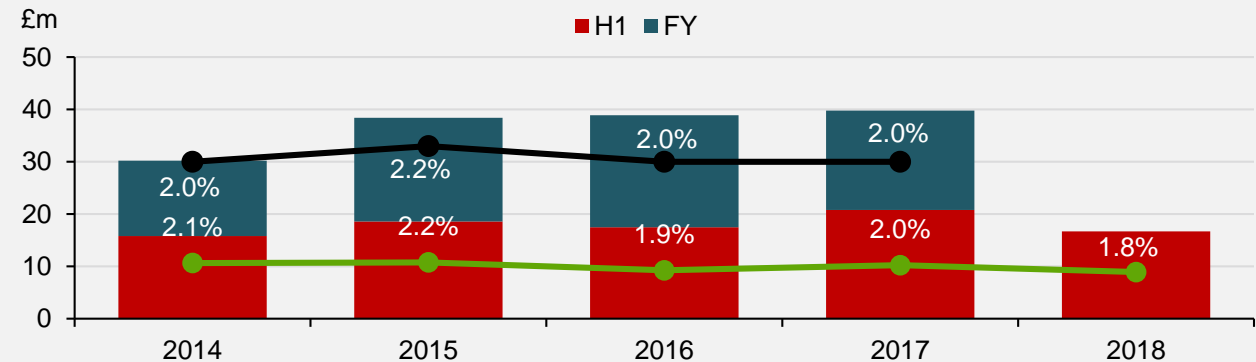
Revenue¹



Operating profit¹



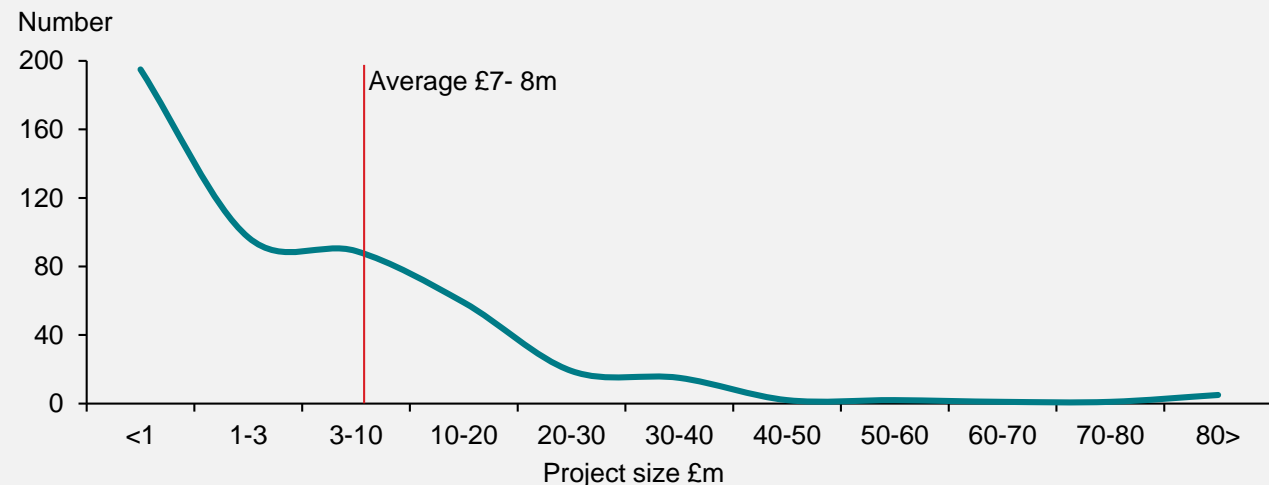
Underlying operating profit and margins



Operational highlights

- Order book £4.7bn +12%
- Caribbean and Hong Kong settlement concluded; £7.7m final cost incurred
- Revenue second half weighted, 100% secured for 2018
- 70% delivered through frameworks
- Average project size £7 - 8m

Contract size distribution



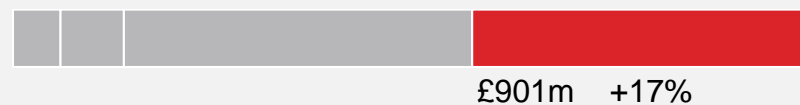
¹ Stated before non-underlying items.

Services performance

Increasing revenue with stable high quality margins

Financials

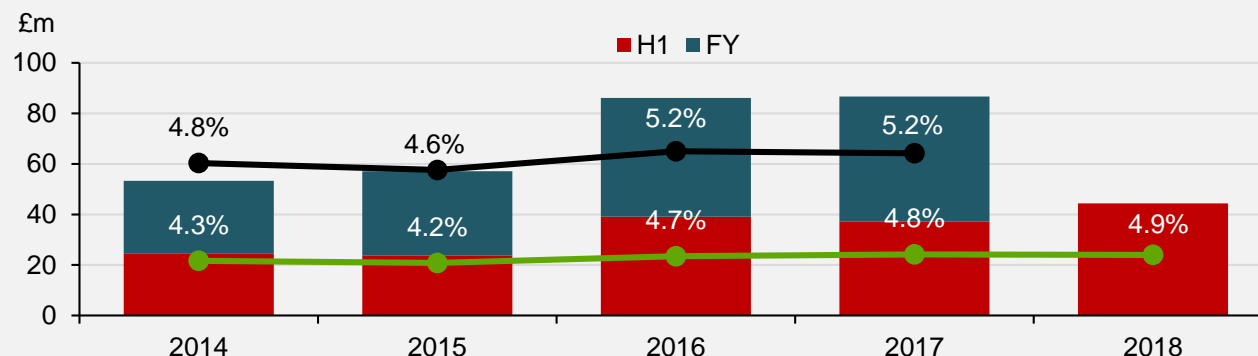
Revenue¹



Operating profit²



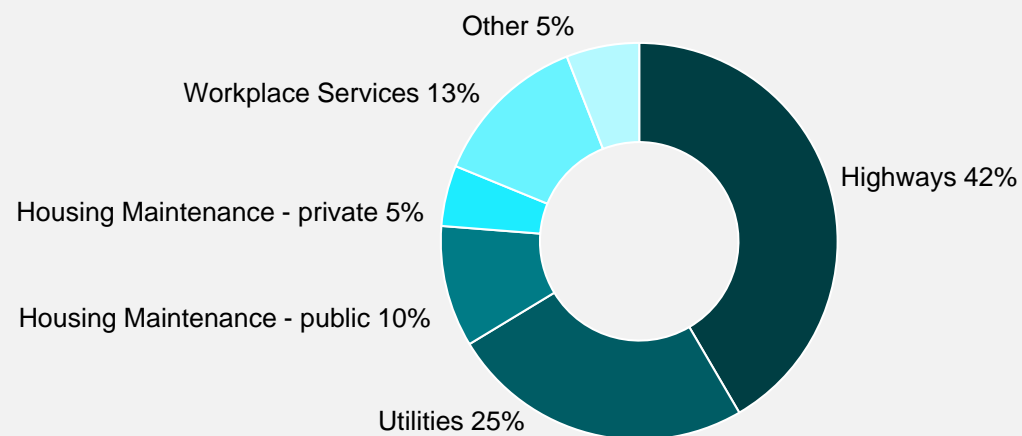
Underlying operating profit and margins



Operational highlights

- Order book £4.8bn +2%
- Strong Highways performance
- Areas 3 & 9 three-year extensions in negotiation
- Stable operating margin
- McNicholas integration progressing well

Sector mix

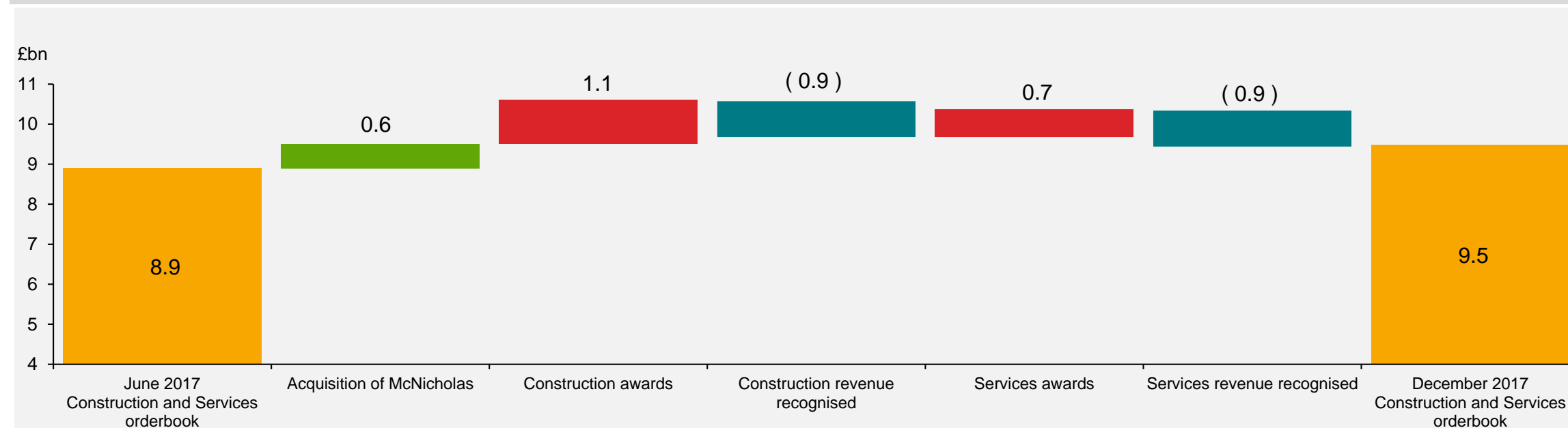


¹ Group and share of joint ventures.

² Stated before non-underlying items.

Construction and Services order book

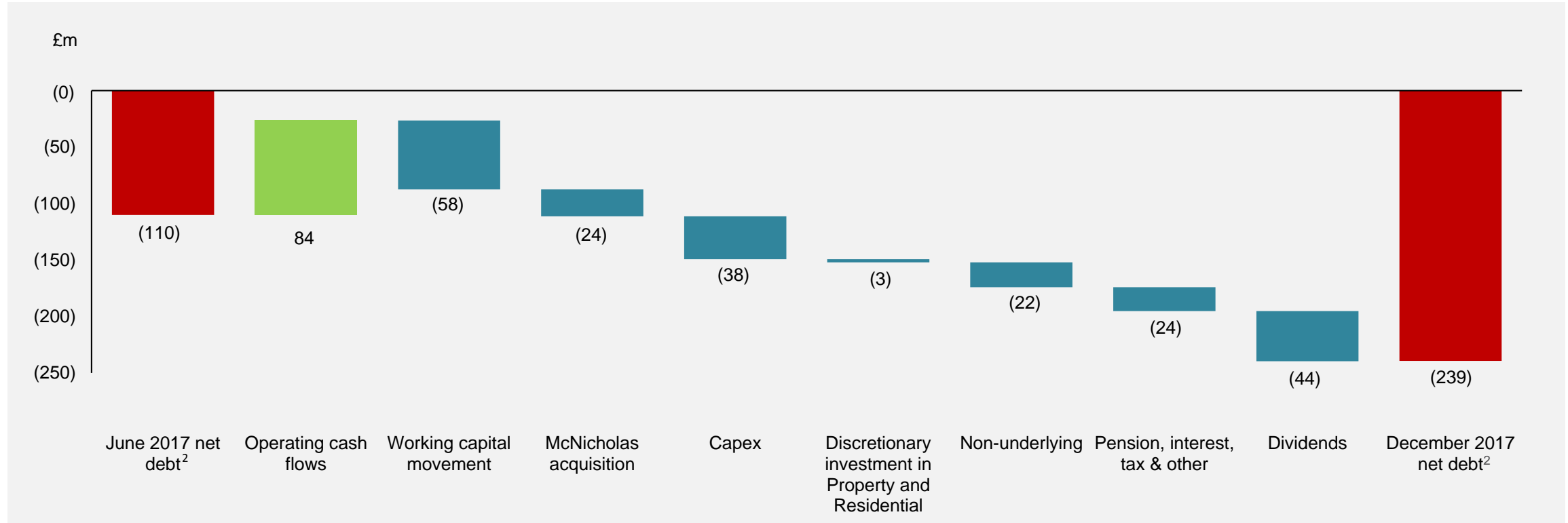
	At 31 Dec 2017 £bn	At 30 June 2017 £bn	Change %	At 31 Dec 2016 £bn
Construction	4.7	4.2	+12	3.3
Services	4.8	4.7	+2	5.6
Total	9.5	8.9	+7	8.9



- Increased control of joint ventures would add £0.5bn to the order book
- The order book provides long-term visibility with 100% of revenues secured for FY18

Group net debt

Strong operating cash conversion¹ of 125%



- Cash conversion consistently greater than 100% over the past five years
- McNicholas acquired in July 2017 for £24m

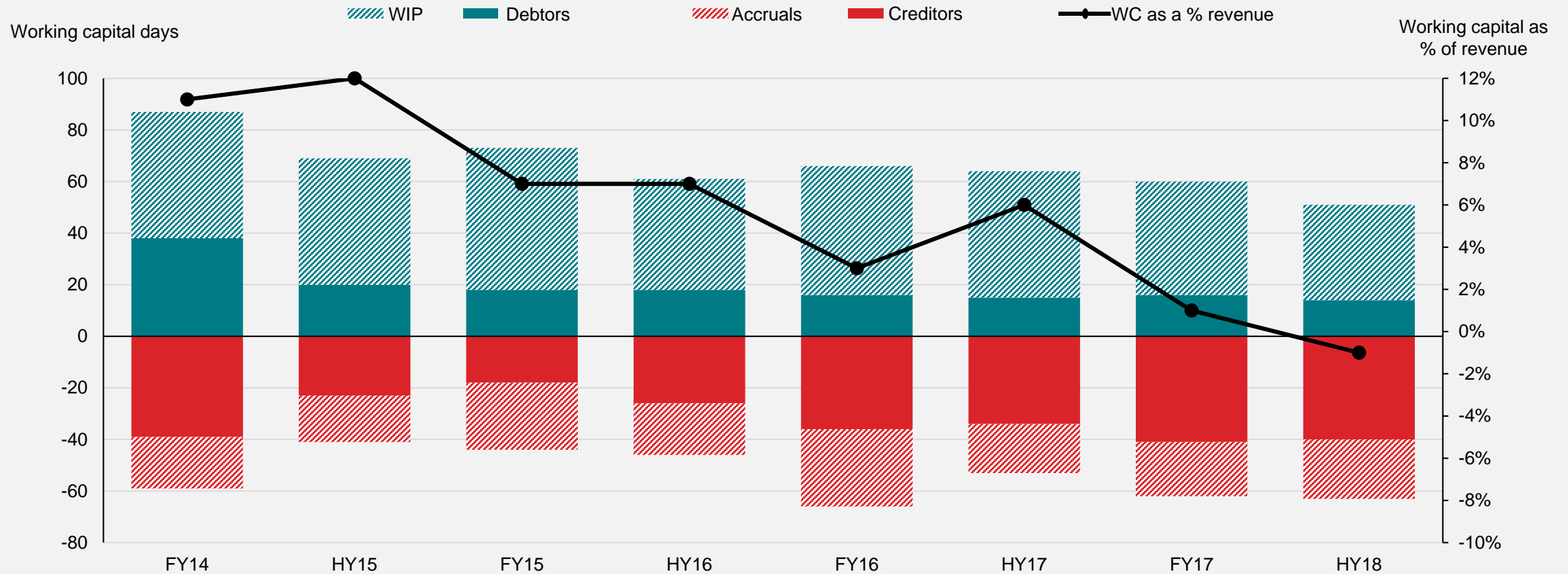
¹Cash conversion is calculated by dividing operating cash flows by underlying operating profit. This calculation excludes the impact of the Caribbean and Hong Kong closures.

²Net debt is shown net of the impact of hedging instruments.

Contracting – working capital flows

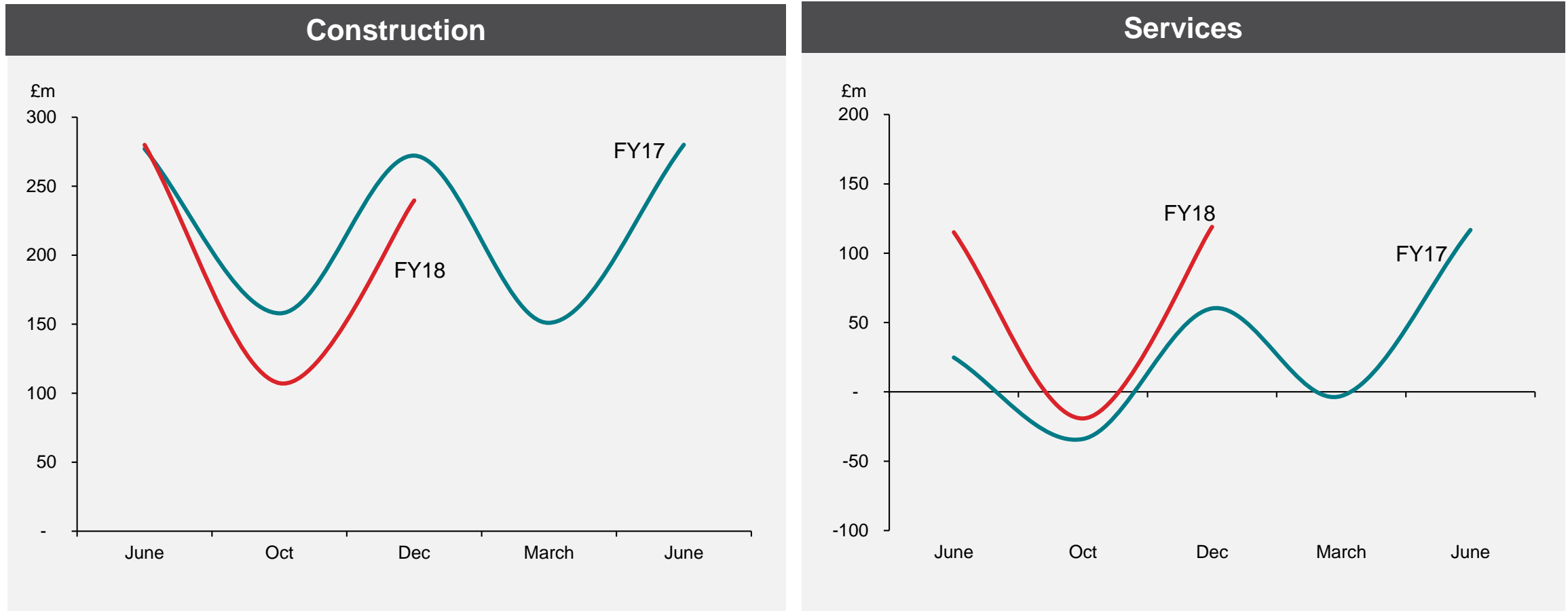
Improving working capital

Working capital flows



Contracting cash balance

Improving net cash



- Average net cash in Construction and Services has increased.

Capital structure summary

- The Group continues to have strong operational cash conversion
 - Cash conversion >100% for 5 years
- Investment in Property and Residential sufficient to achieve Vision 2020 targets
 - Capital investment maintained and recycled
- Working capital debtor and WIP collection improved
- Stable supply chain finance utilisation
- The Construction and Services contracting divisions are generating cash in excess of profit
- From FY19 average Group net debt is expected to decrease

- H1 average net debt £350m
- Assets (at cost) £500m
- On track: net debt <1x EBITDA

Pensions

Strong performance with asset gain of £90m

- Pension deficit reduced to £19m driven by asset gain
- Triennial valuation concluded
 - Annual deficit reduction payments reduced to £21m until 2020

		At 31 Dec 2017 £m	At 30 June 2017 £m	Change £m	At 31 Dec 2016 £m
Group Pension Schemes:					
	Market value of assets	1,749	1,637	+112	1,651
	Present value of liabilities	(1,772)	(1,721)	-51	(1,733)
Deficit in the schemes		(23)	(84)	+61	(82)
Deferred tax		4	14	-10	14
Net pension liability		(19)	(70)	+51	(68)
Key assumptions:	Discount rate	2.50%	2.65%		2.75%
	Inflation rate - RPI	3.10%	3.20%		3.20%
	Inflation rate - CPI	2.00%	2.10%		2.10%

Guidance

	FY18	FY19-20
Operating profit		
Property	ROCE > 15%	ROCE >15%
Residential	ROCE improving	15%
Construction	Margin c. 2%	2.5%
Services	Margin c. 5%	5%
Central costs	£35-40m incl. McNicholas integration costs and parallel running costs	Reducing to 2020
Finance costs	Growing in line with average net debt	
Tax rate	c.18%	
Average net debt	H2 £370m, FY £360m	Reducing
Pension contribution	£25m	£21m
Capex (incl. finance leases)	c.£65m	c.£35m
Dividend		Target 2x dividend cover
Free cash flow	c.£20 - £40m pa	

Financial summary

- Good performance in line with management expectations
- Earnings per share¹ of 41.0p up 3%
- Net debt position in line with expectations
- Stable investment in Property and Residential divisions
- Order book of c.£9.5bn with potential extensions of c.£2.5bn
- Pension deficit reduced to £19m
- Interim dividend of 23p up 2%

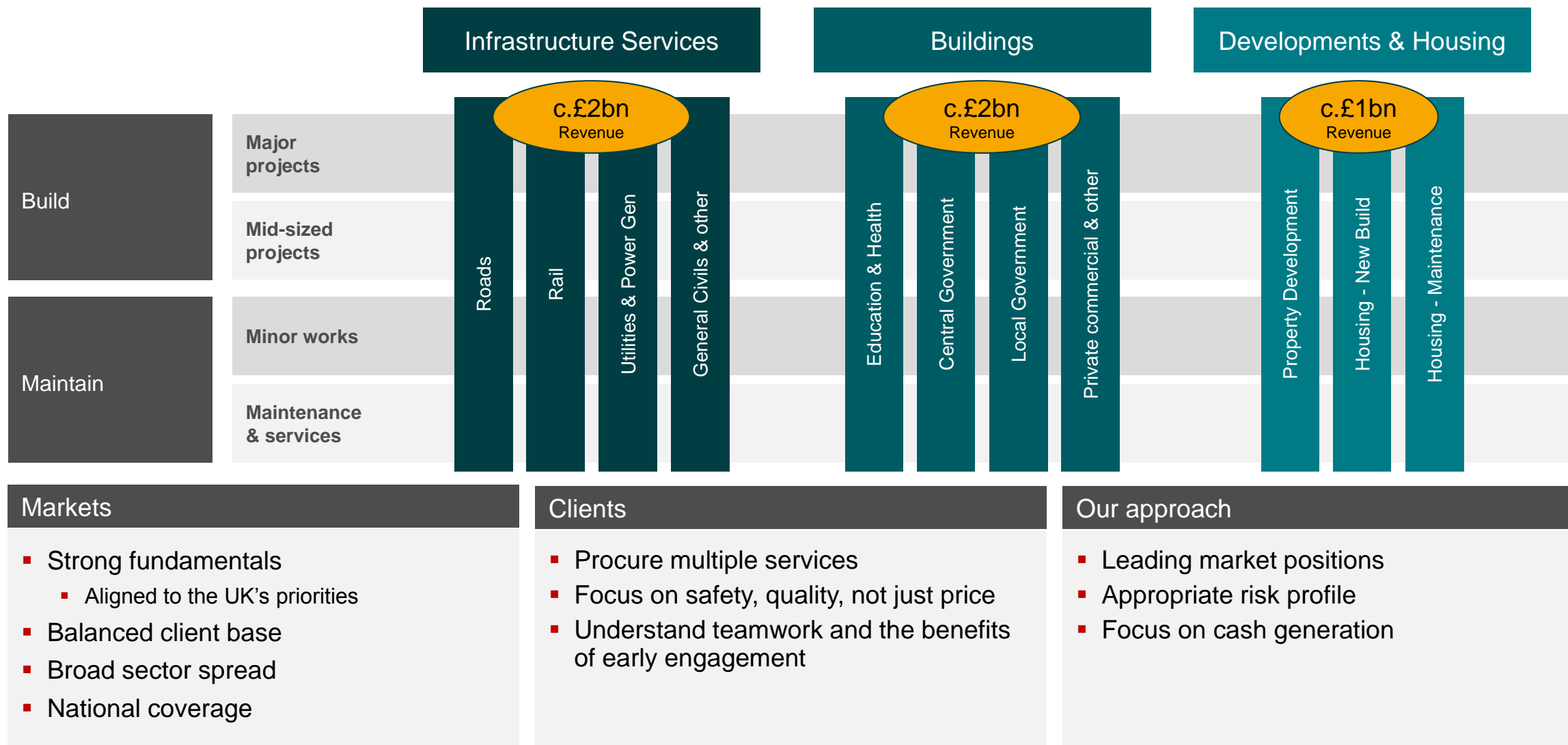
¹Arising on continuing operations, stated before non-underlying items.



A market and client-led strategy

Haydn Mursell, Chief Executive

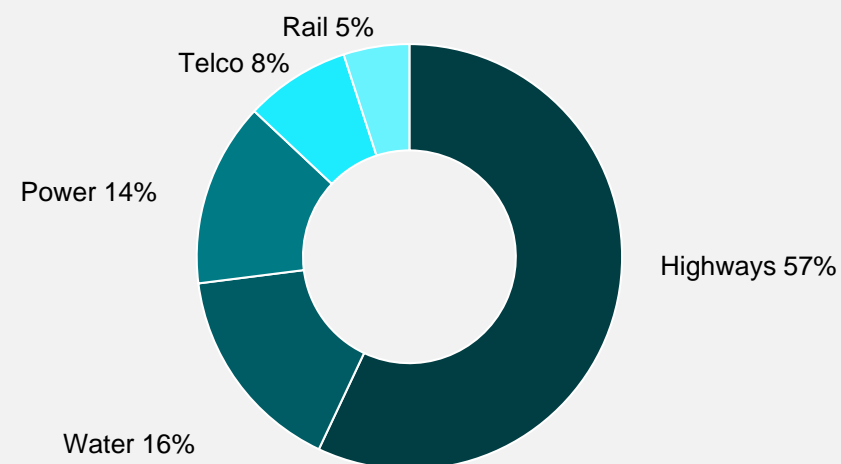
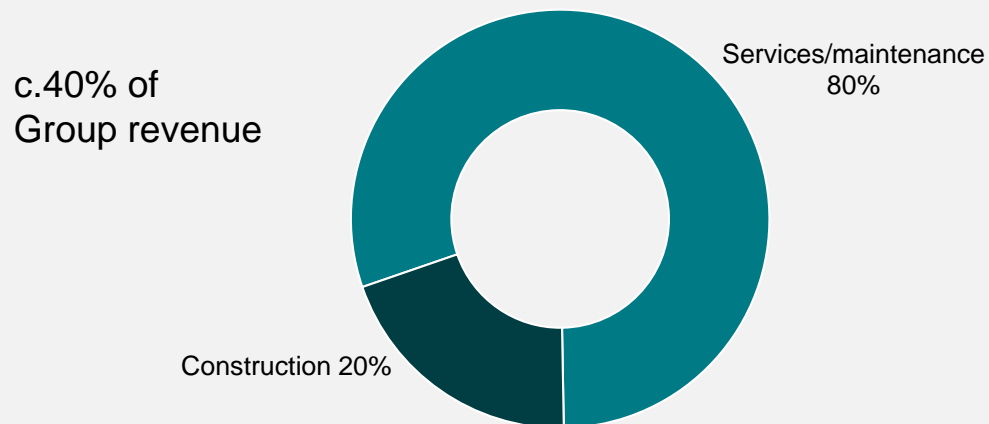
Strategy focused on market-leading positions



Infrastructure Services

Markets	Position ¹	Approach and performance												
<ul style="list-style-type: none"> Highways Rail Energy (Power generation & distribution) Water Telecoms 	<table border="1"> <tbody> <tr> <td>1</td> <td>Kier</td> <td>£1.7bn</td> </tr> <tr> <td>2</td> <td>Costain</td> <td>£1.6bn</td> </tr> <tr> <td>3</td> <td>Balfour Beatty</td> <td>£1.5bn</td> </tr> <tr> <td>4</td> <td>Amey</td> <td>£1.2bn</td> </tr> </tbody> </table>	1	Kier	£1.7bn	2	Costain	£1.6bn	3	Balfour Beatty	£1.5bn	4	Amey	£1.2bn	<ul style="list-style-type: none"> Long-term order book <ul style="list-style-type: none"> Beyond 2020 Lower risk contracts <ul style="list-style-type: none"> Maintenance focus Essential services
1	Kier	£1.7bn												
2	Costain	£1.6bn												
3	Balfour Beatty	£1.5bn												
4	Amey	£1.2bn												

Annualised Revenues



¹Company accounts, analyst research, management estimates.

Infrastructure Services

Markets

- Market size: £26bn
- Kier 7% share
- Maintenance
 - Stable
- Capital works
 - 8% pa growth

Highways

- Market leader in the UK
- Repairs and maintenance stable
 - Areas 3 and 9 extensions in negotiation
- Capital works increasing
 - Smart Motorways - 100% share of schemes
- RIS2 up to £30bn (RIS1 £15bn – £17bn)

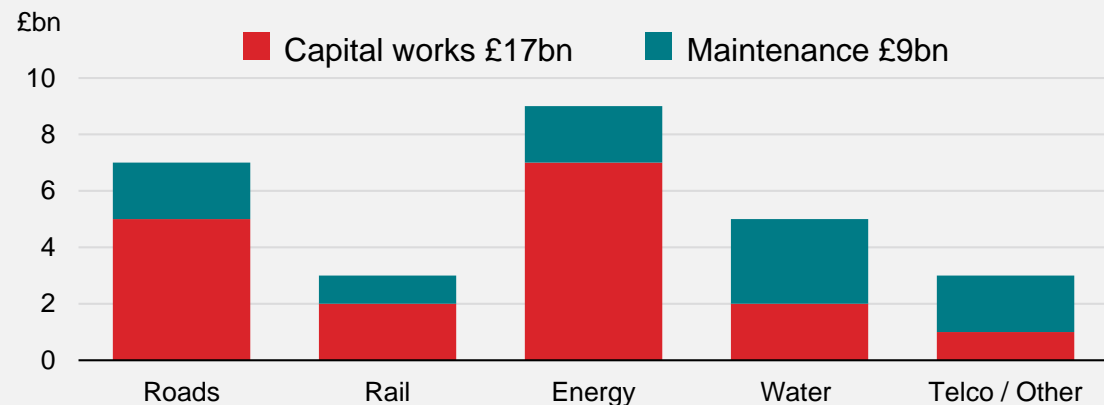
Outlook - Highways

Maintenance

Stable

Capital works

Growth



Infrastructure Services

Utilities

- Top 3 player in the UK
- Build and maintain utility networks
- McNicholas performing well
 - Strengthened positions in Telco and Energy
- Strong near-term pipeline
 - AMP7 totex c.£44bn (AMP6 £44bn)
 - £7bn investment to 2020 in broadband

Others

- Energy
 - Hinkley
- Rail
 - HS2, Crossrail
 - CP6 c.£36bn (CP5 £30bn) on renewals, total market with enhancements valued at £47bn
- Very selective on new work

Hinkley



HS2



Outlook

Telco	Growth
Energy	Growth
Water	Stable
Rail	Growth

Buildings

Markets

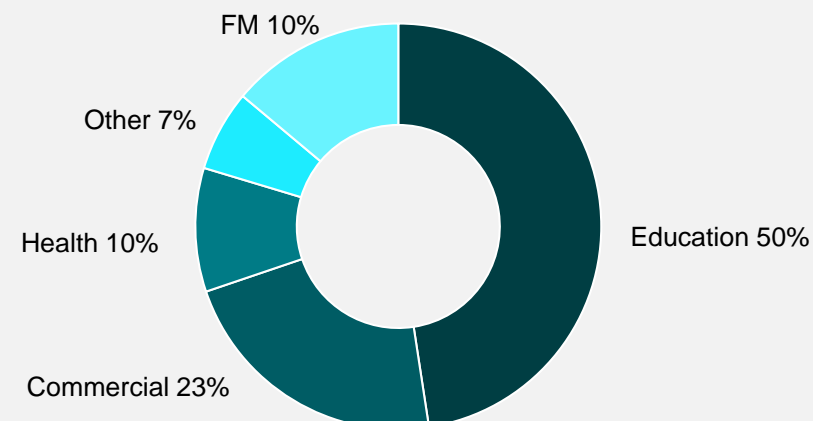
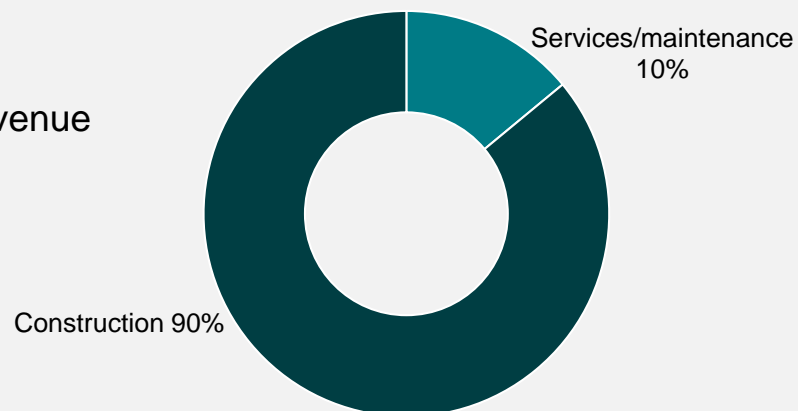
- Building
 - Education
 - Health
 - Commercial
- Facilities Management (FM)
 - c.30% from Building clients

Approach and performance

- 70% framework awards
- Long-standing and repeat clients
 - Similar across Building and FM
- National coverage
- Modest value contracts
 - Average project size c.£7-8m

Annualised Revenues

c.40% of
Group revenue



Buildings

Markets

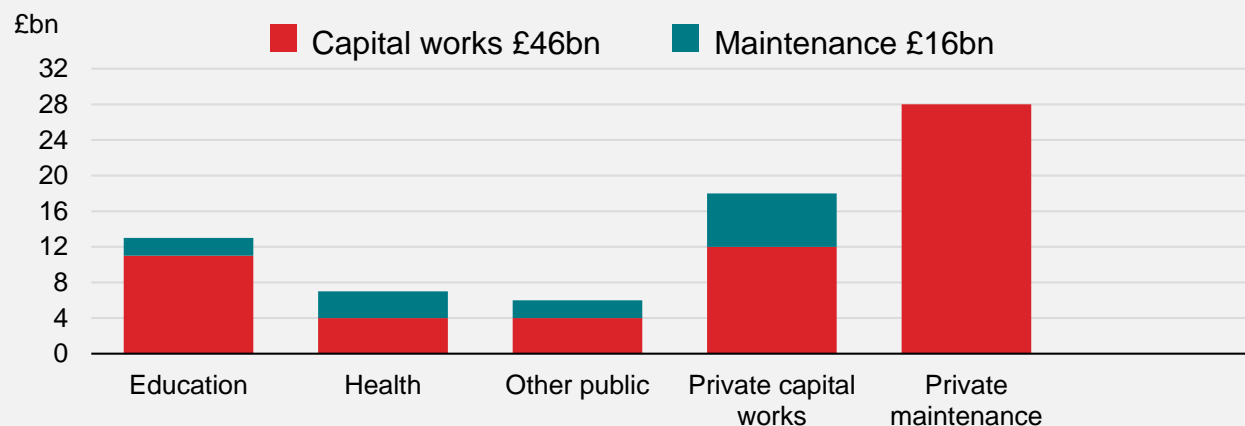
- Value of market £62bn
- Kier 3% share
- Disciplined approach
 - Contract selection
 - Cash generation
 - Supply chain partners

Position¹

1	Kier	£1.9bn
2	Balfour Beatty	£1.5bn
3	Galliford Try	£1.0bn
4	BAM Construct	£1.0bn
5	Morgan Sindall	£0.8bn

Building

- Focus on frameworks
 - Leading Education and Health provider
 - ESFA framework & P22 framework
- Fewer than 5 projects >£50m in value
- London and SE activity <10% revenue
- Growth forecast to be ahead of market
 - Strength of our market position
 - New sectors
 - Defence
 - Life sciences
 - Aviation



¹Company accounts, analyst research, management estimates.

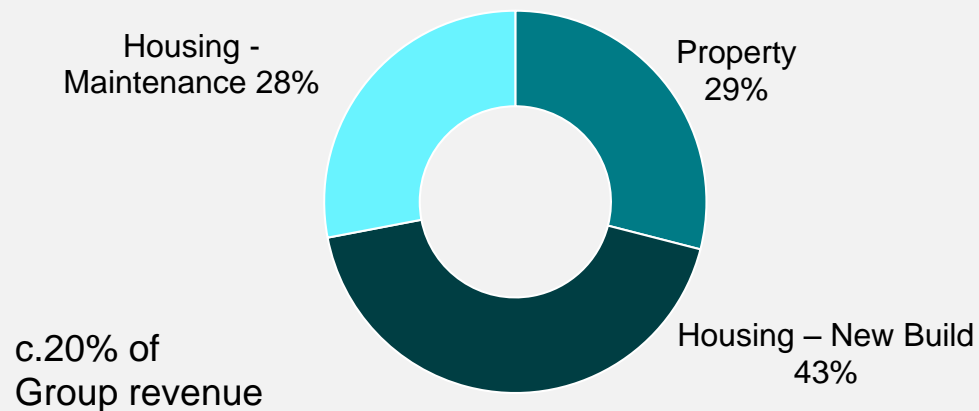
Developments & Housing

Markets

- Property developments
 - Mixed-use
 - Offices
 - Student accommodation
 - Retail and leisure
 - Industrial
 - Housing
 - New build
 - Maintenance
- £500m asset base (cost)

Property developments

- Top 3 trader developer
- Quick turnover of schemes
- Capital efficient joint ventures
- Non-speculative approach
 - >80% of activity is outside London
- Broad sector spread with £1.5bn pipeline
- Achieved Vision 2020 capital levels
 - >15% ROCE achieved
- Significant benefit to the Group
 - Utilises free cash flow
 - Delivers excellent returns
 - Provides clients with development expertise
 - Generates >£100m of revenue for other parts of the Group

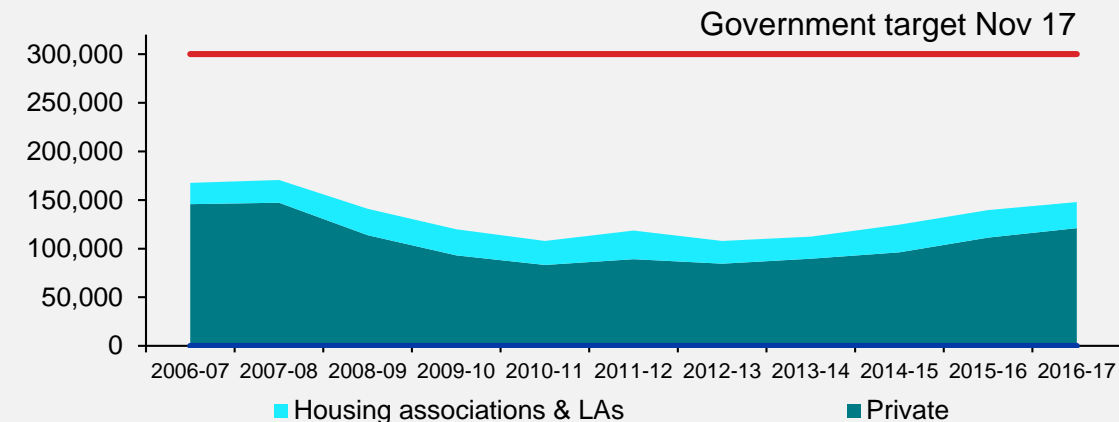


Developments & Housing

Housing – new build

- Achieved Vision 2020 capital levels
- On track for 15% ROCE by 2020
- Severe affordable housing shortage in UK
- Average private house price c.£240k
- Help to Buy accounts for 50% of sales
- Improving national coverage
- Increasing use of joint ventures
- Pipeline of £2bn over next 5+ years

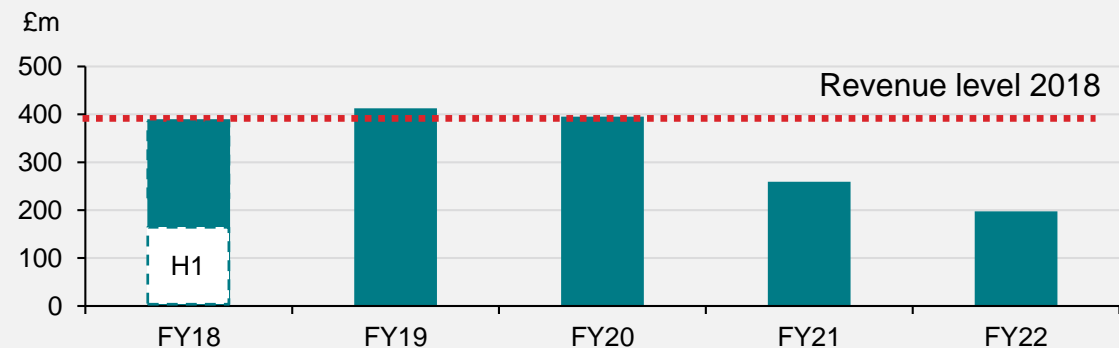
Housing Data¹



Housing – maintenance

- Post Grenfell challenges for clients
- Competition for limited 'usual' workload
- Agile workforce and broader client relationships help to mitigate this

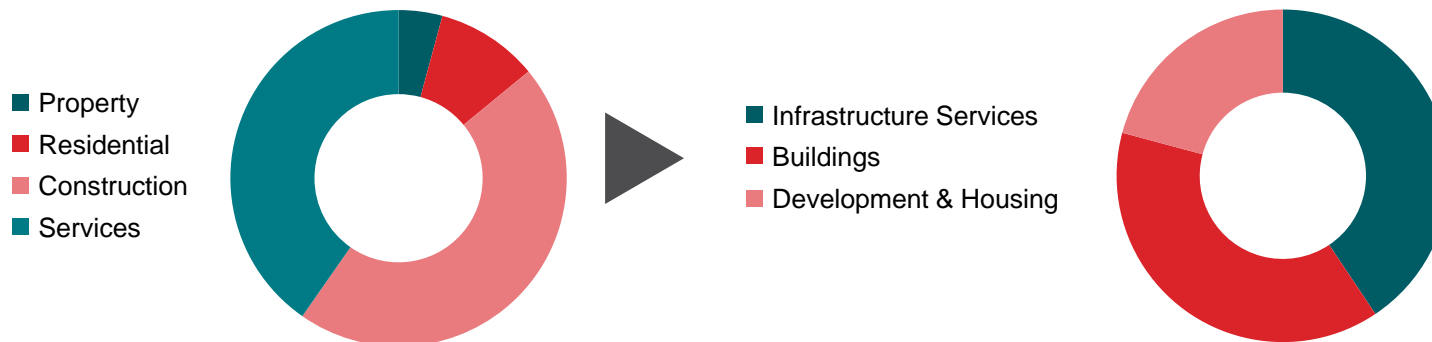
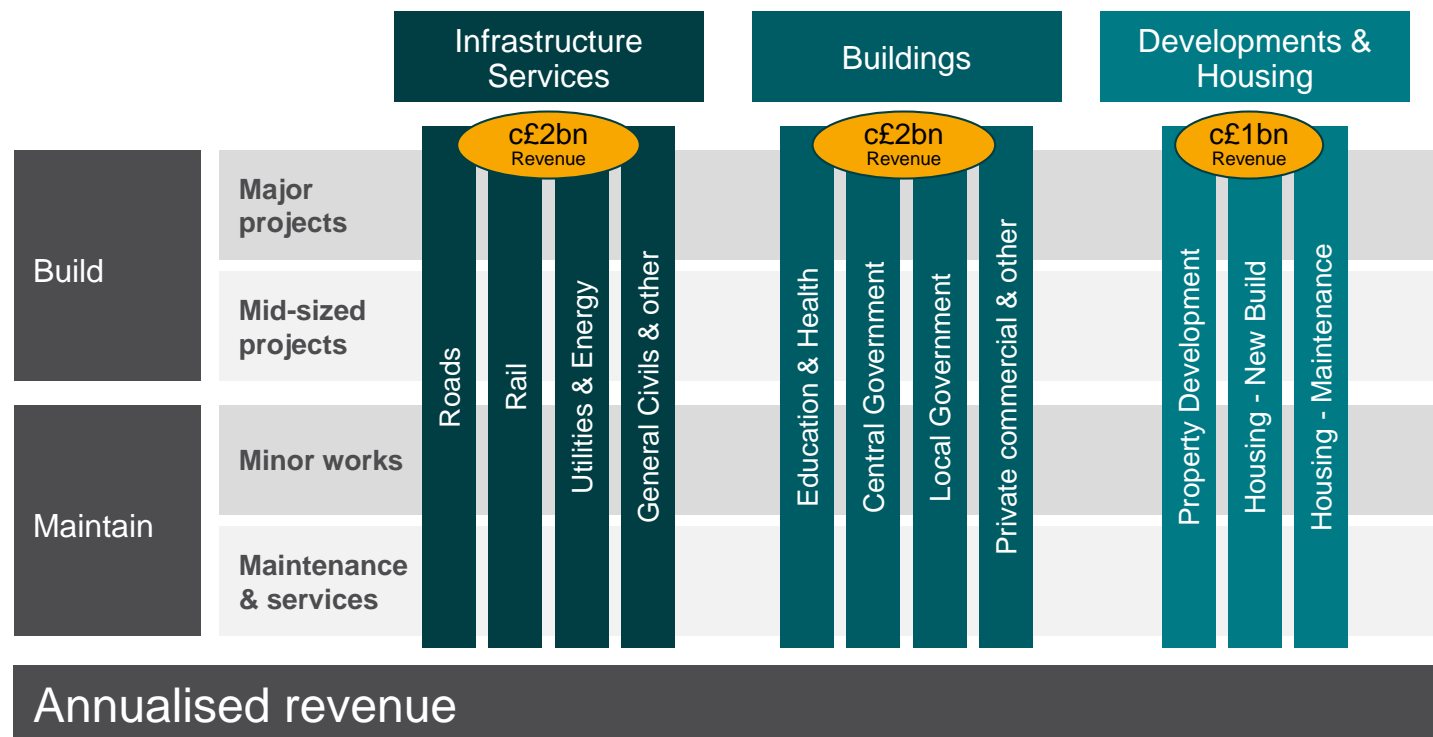
Pipeline – new build



¹Department for Communities and Local Government (DCLG).

Robust business model

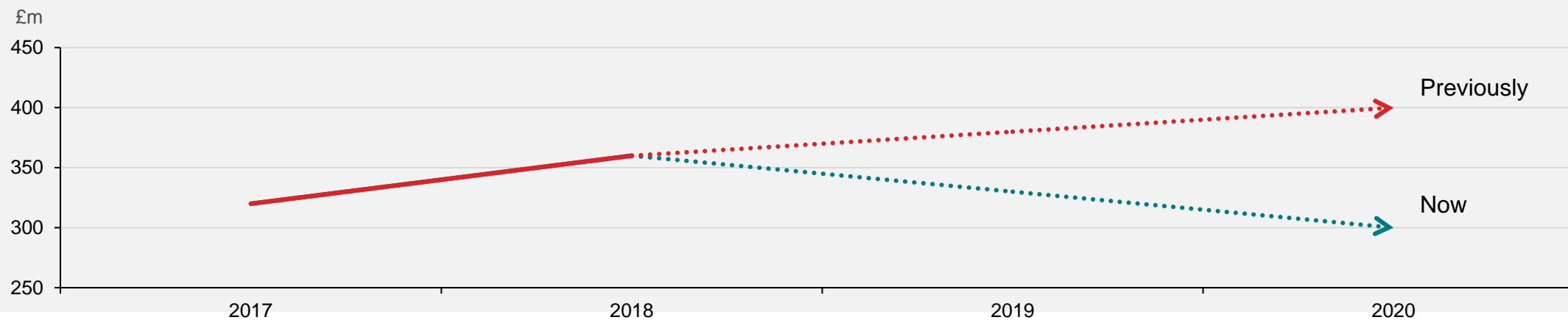
- Three market verticals
- Strong long-term fundamentals
- Leading market positions
- Strong client relationships
- Focus on qualitative measures, not only price
- Multiple services available
- Opportunity for growth



Future growth

	Growth opportunity	How
Infrastructure Services	✓	<ul style="list-style-type: none"> ▪ Leading market positions ▪ UK under investment – fibre rollout, CP6, HS2+, Smart Motorways ▪ Capital works 8% pa growth; maintenance contracts extended to 2022
Buildings	✓	<ul style="list-style-type: none"> ▪ Leading market positions ▪ Growing population – schools, healthcare ▪ New sectors – defence, life sciences, aviation
Developments & Housing	✓	<ul style="list-style-type: none"> ▪ Property stable, non-speculative approach ▪ Severe UK affordable housing shortage ▪ Margin improvement also via land bank mix

Average net debt



Approach

Contracting risk management approach

<£10m
Average
project size

>70%
Frameworks



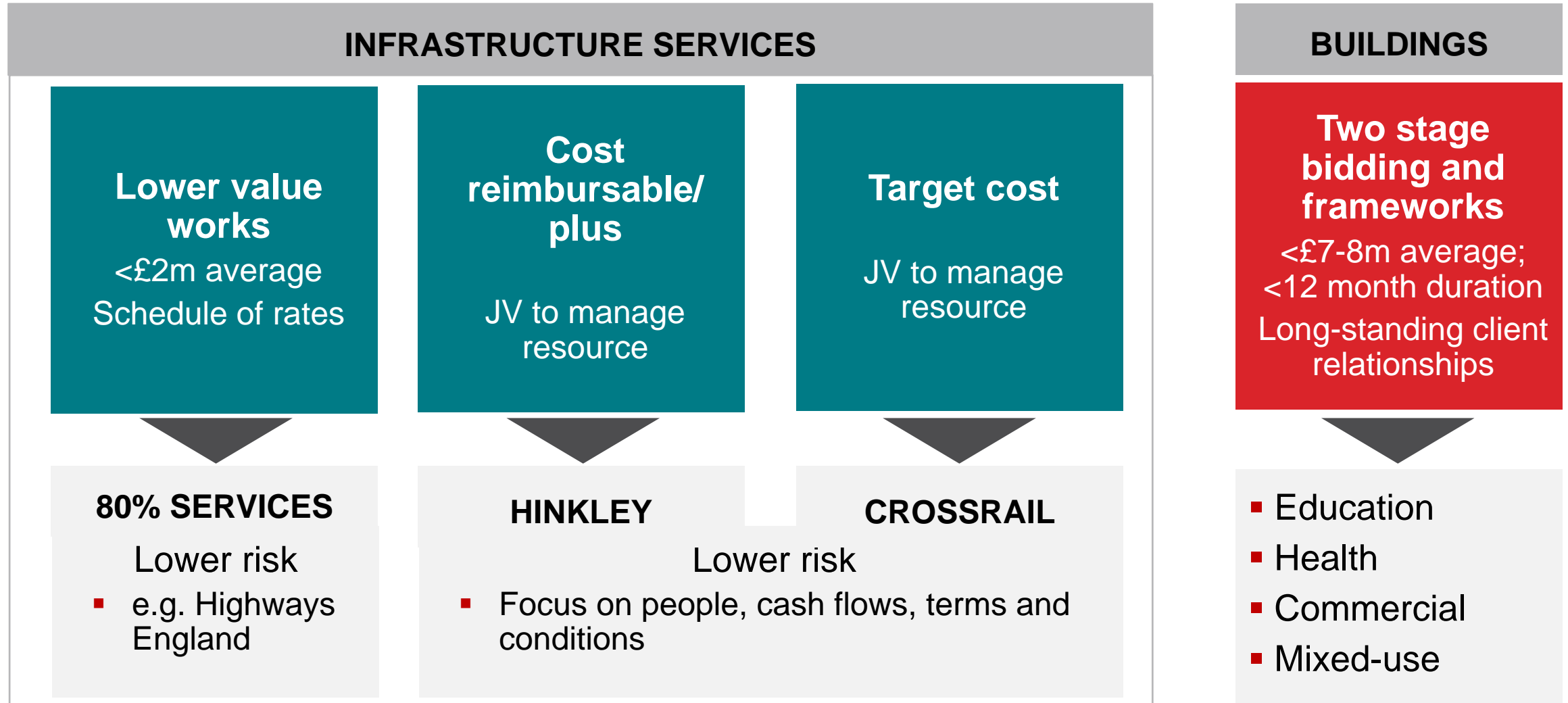
Lower risk contract models

- Careful selection on 'where to' operate
 - Sectors
 - Geographies
 - Contract types / Procurement routes
- Pre-contract / Pre-investment review
- Group commercial standards
 - Risk and value based

- Committee for capital investment appraisals
- Post contract and reporting processes

Approach

Infrastructure Services and Buildings



Summary and outlook

On course for Vision 2020 targets

- Good first half performance
- Leading market positions in long-term growth markets focused on UK priorities
- Proven track record of financial and operational delivery
- Disciplined bid and risk management
- Strengthening order books/pipelines
- Confident to deliver double-digit profit growth in 2018 and in achieving Vision 2020 targets

Infrastructure Services

- No 1 highways provider – capital works & maintenance
- Top 3 player in utilities
- Investment needed in the UK

Buildings

- No 1 regional builder
- National reach, local delivery
- Common clients with FM
- Serving a growing population

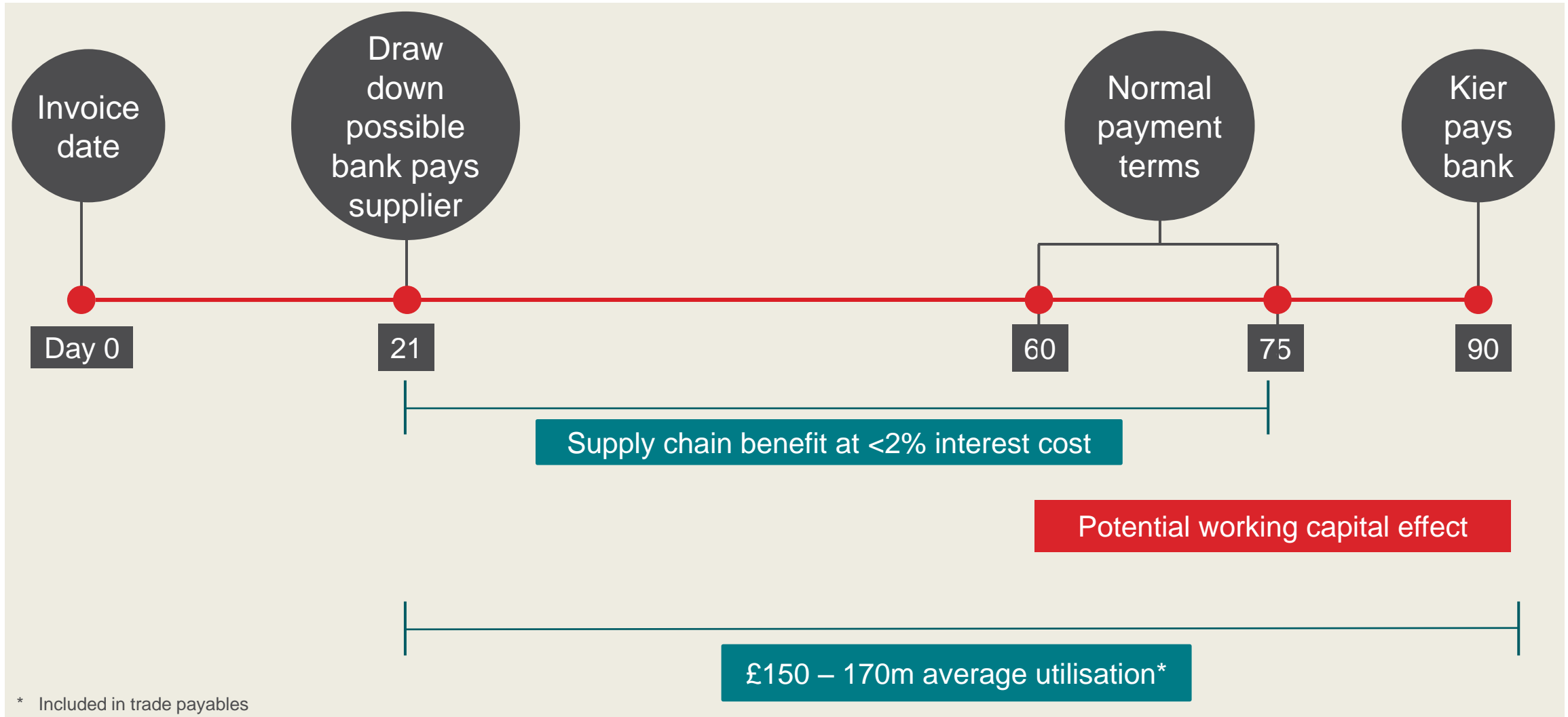
Developments & Housing

- Top 3 trader developer
- Top 3 provider of affordable and social housebuilding and maintenance market
- UK shortage / Gov't focus



Appendices

Supply chain finance illustrated



Investments portfolio (as at 31 December 2017)

	Project	Status	Capital value £m	Kier equity/loan stock £m	Equity %
Local authority	Woking housing	In operation	31	2.0	50.0
	Social Power, Harlow	In operation	1.1	1.1	100.0
Student accommodation	Glasgow (direct let)	In operation	22	3.9	75.0
	Newcastle (direct let)	In operation	31	9.8	75.0
	Southampton (direct let)	In construction	37	9.3	75.0
Education	East Ayrshire Schools	Preferred bidder	43	1.0	24.0
	South Ayrshire Schools	In construction	24	0.6	24.0
	Queen Margaret Schools	Preferred bidder	25	0.6	24.0
Committed Investment				£28.3m	

Of the £28.3m committed, £26.4m has been invested to date
 Directors' valuation at 7.5% for PFIs and at appropriate yields for student accommodation - £32.9m

Free cashflow

	6 months to 31 Dec 2017 £m	6 months to 31 Dec 2016 £m
Underlying operating profit	60.0	57.3
Depreciation & amortisation	14.5	13.3
Underlying EBITDA	74.5	70.6
JV dividends less share of profits	29.2	(5.0)
Working capital movement	(56.3)	(15.4)
Capex	(37.8)	(30.4)
Net interest	(10.2)	(9.2)
Tax	0.2	(4.7)
Pension	(14.5)	(15.7)
Non-underlying	(15.0)	24.5
All other movements	(0.9)	7.8
Free cash flow	(30.8)	22.5
Net investment in joint ventures	(35.3)	(74.9)
Dividends	(44.4)	(27.7)
Acquisitions and disposals	(17.9)	-
Change in Net debt	(128.4)	(80.1)
Opening Net debt ¹	(110.1)	(98.8)
Closing Net debt ¹	(238.5)	(178.9)

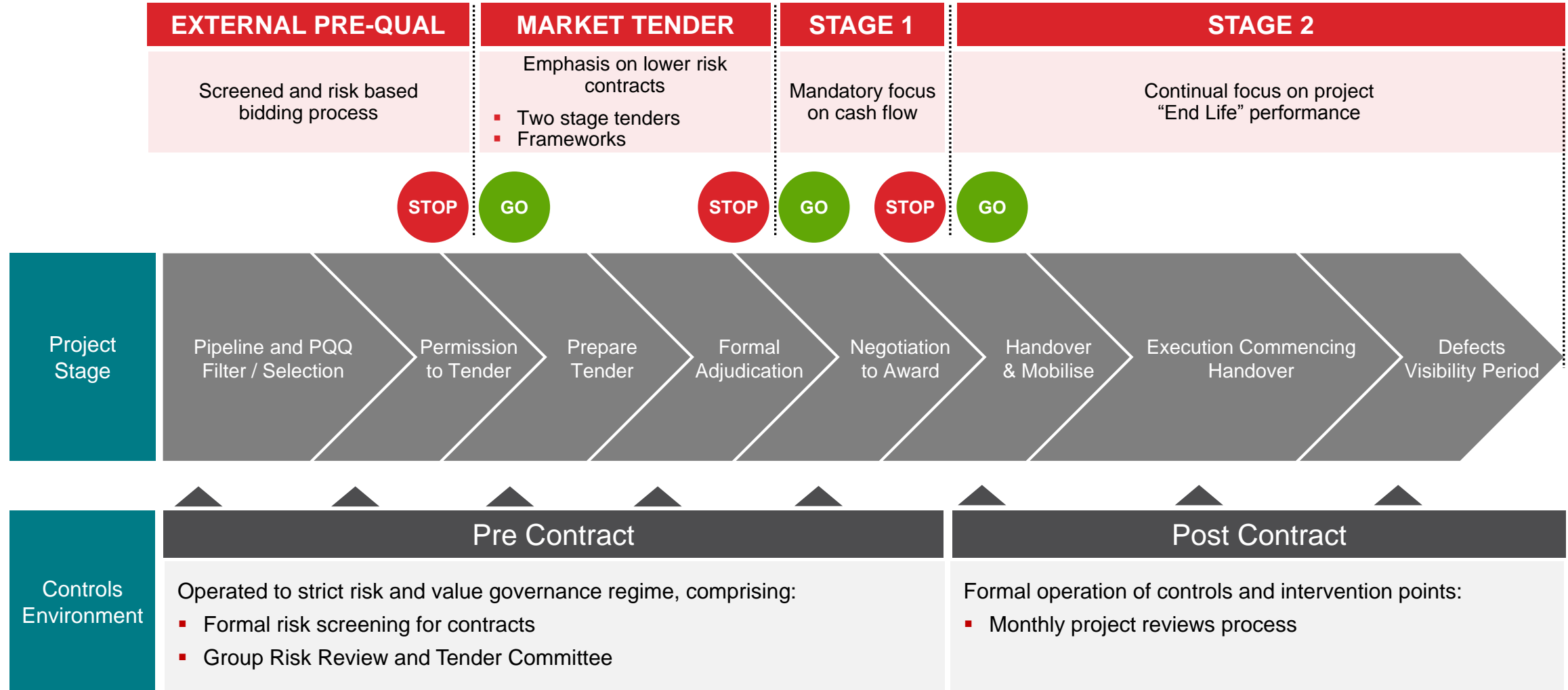
¹Net debt is shown net of the impact of hedging instruments.

Kier Strategic Highways - current contracts

Local authority planned and reactive maintenance contracts	Area	Duration
<ul style="list-style-type: none"> ▪ Surrey 	Area 3	2018 – in negotiation for 3 year extension
<ul style="list-style-type: none"> ▪ Suffolk 	Area 6	2019
<ul style="list-style-type: none"> ▪ Lincolnshire 	Area 7 (design services)	2021
<ul style="list-style-type: none"> ▪ Northamptonshire 	Area 8	2019
<ul style="list-style-type: none"> ▪ Torbay 	Area 9	2019 – in negotiation for 3 year extension
<ul style="list-style-type: none"> ▪ Transport for London (South Area) 	Area 13	2032
<ul style="list-style-type: none"> ▪ London Boroughs (Croydon, Harrow, Kingston) 	South West (design services)	2022
<ul style="list-style-type: none"> ▪ Shropshire (commencing 1/4/18) 		

Our risk management gateway process

Controls and intervention points



Strong UK regional presence

