KIER

News Release

For announcement 0700 hours on 12 November 2015

KIER GROUP PLC
AGM TRADING UPDATE

Kier Group plc, the property, residential, construction and services group, announces its trading update covering the period from 1 July 2015 to date, prior to its Annual General Meeting in London at 12 noon today.

Current trading
The Group remains on course to meet the Board's expectations for the current financial year. In line with last year, the business' performance will be second-half weighted. Good progress has been made on the integration of the Mouchel acquisition, completed in June 2015, and we remain on course to deliver £4m of synergies in the second half of the 2016 financial year, as previously forecast.

Property
The Property division continues to perform well, with a pipeline of more than £1bn. This performance is underpinned by strong occupier and investor interest, resulting in an annualised return on capital ahead of the Group's target of 15% for the division.

The developments business has acquired a 46,000 sq ft mixed-use retail site in Wakefield and the planning permission process is underway. It has also completed the purchase of a 34,000 sq ft building in Fitzrovia, London, in joint venture with Investec. Occupiers have been identified for both schemes, reflecting our largely non-speculative approach.

In July 2015, a 48,000 sq ft office development, in joint venture with FORE Partnership, at 58 Victoria Embankment was forward sold ahead of practical completion for £51m and a land sale in Sutton Coldfield was completed with a value of £2m. In addition, a development site at Peartree in north Oxford was purchased and sold.

The structured finance business completed its first student accommodation schemes in Glasgow and Salford, in time for the start of the 2015 academic year. Additional student accommodation opportunities, in joint venture, are close to being secured in both Newcastle and Southampton.

Residential
The Residential division is benefiting from the demand in the UK for all forms of housing and is performing strongly, with approximately 2,350 completions expected this year, approximately 10% ahead of last year.

In the private housing business, we remain on course to deliver approximately 750 completions from our own land bank. Since 1 July 2015, 160 new plots have been secured in this business and we are achieving sales of 0.7 units per week on our existing sites.

The mixed-tenure business has continued to perform well and is forecasting approximately 1,600 completions this year. Following its acquisition of Southdale earlier this year, the business is benefiting from a number of new and large scale opportunities in the north of England, as demonstrated by the 169 unit Deerbolt development in Barnard Castle.

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Following changes to the affordable housing rents outlined in the 2015 budget, new affordable housing projects have been delayed while housing associations and local authorities assess the effect of the changes. However, we expect this trend to reverse and that the business will identify additional opportunities for private/public collaboration. We continue to recycle the capital from our own land bank to service growth in the mixed-tenure business.

Construction

The Construction division's trading performance is in line with management's expectations. The division secured more than £700m of new work during the period, reflecting its strong position on frameworks and its regional focus. The current order book represents 100% of targeted revenue for the 2016 financial year and supports the division's forecast operating margin of 2%.

Key contract developments since 1 July 2015 include:

- Final terms have been agreed to deliver over £200m worth of enabling works for the first phase of the Hinkley Point C nuclear power station;
- The appointment as sole contractor to deliver up to £1.5bn of construction and maintenance work for leading built environment specialist, Scape Group; and
- The award of the Smart Motorway contracts worth up to £475m, in a joint venture, as part of the Highways England Collaborative Delivery Framework.

The Middle East construction pipeline for this year remains encouraging. However, in Hong Kong, the rail programme project delays remain challenging and discussions continue with the client, MTRC.

Services

The Services order book represents more than 95% of targeted revenues for the 2016 financial year. Underlying operating margins remain in line with management's expectations at approximately 4.7%. The continued pressure from a decline in recyclate prices within the environmental business has adversely affected profits in the division by approximately £1m in the three months ended 30 September 2015.

The integration of Mouchel is progressing well. We remain on course to deliver £4m of synergies from the Mouchel acquisition in the second half of the financial year. Mouchel has delivered a strong performance since acquisition and the complementary capabilities that it brings to the Group are being realised as we work with key clients on the Group's broader offering, particularly in the highways, education, health and other infrastructure sectors.

We have made good progress on the integration of our strategic highways and local authority highways businesses in order to maximise our performance in these markets. We also combined our utilities and infrastructure businesses, ensuring greater co-ordination of the Group's operations and optimising client focus.

Financial position

The Group's net debt position at 31 December 2015 is expected to be approximately £220m (31 December 2014: £156m), reflecting investment in the Property and Residential divisions, delays both in receipts from public sector clients in Saudi Arabia until the first quarter of 2016 and the expected settlement of historic final accounts.

We anticipate that the net debt position at 30 June 2016 will be in line with our expectations and we are on course to achieve our Vision 2020 goal of delivering a net-debt-to-EBITDA ratio of 1:1 by 2017.

Outlook

The Group remains on course to meet the Board's expectations for the current financial year. As previously forecast, and in line with last year, the Group's performance will be second-half weighted.

We are encouraged by the recent launch of the Government's new National Infrastructure Commission which confirmed the allocation of £100bn for infrastructure spending by 2020, including a £15bn commitment to the UK roads investment strategy. This funding is expected to assist the Group in the delivery of its Vision 2020 strategy.

The integration of Mouchel is progressing as planned. We are now able to provide a wider range and breadth of capabilities to clients using our construction, infrastructure and property services capabilities.

Our combined Construction and Services order books of more than £9bn, together with a strong pipeline of opportunities, position the Group well for the future.

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Kier is holding its Annual General Meeting at the Andaz Hotel, 40 Liverpool St, London EC2M 7QN at 12 noon today.

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