The Kier investment case

Kier is a leading investor, builder and maintainer of the UK's essential assets.

Strong market positions

Strong market positions in leading sectors providing flexibility, resilience and complementary benefits:

- One of the leading infrastructure players in the UK with revenue of £1.5bn
- The UK's leading regional builder with revenue of £1.5bn
- A leading provider of affordable and social housing and maintenance services

Read more
Chief Executive's strategic review
Pages 6 to 9

Read more
Our strategy
Page 13

Key strengths

- **Focused growth in core markets: infrastructure, building and housing**
- **Long-term client relationships in both the public and private sectors benefiting from an integrated sales offering**
- **A strong risk management-based ethos**
- **A leading property developer, focused on non-speculative development achieving a minimum of 15% return on capital employed (ROCE)**

Revenue[1,3]
£4.2bn

Underlying operating profit[2,3]
£150m

1 Group and share of joint ventures.
2 Stated before non-underlying items. See note 4 to the consolidated financial statements.
3 Continuing operations.

An efficient capital model

- Reinvesting capital from our cash generative businesses into asset-intensive parts of the Group to enhance shareholder returns
- A balanced capital model with approximately £350m of capital deployed in property and residential activities targeting a minimum 15% ROCE annually

Kier's financial track record shows:

- Historical stable and reliable earnings with good visibility provided by a strong order book
- A sustainable and progressive dividend
- A disciplined approach to risk management and capital allocation
- 15% ROCE required from all capital investments
- Strong organic drivers complemented by successful integration of acquisitions provide a platform for growth
- Double-digit profit growth year-on-year on average to 2020

Underlying operating profit by division[2]

Property
£21m

Residential
£20m

Construction[3]
£47m

Services
£86m

Read more
Financial review
Pages 40 to 45

Read more
Key performance indicators
Pages 20 and 21

Chairman's statement
Continued progress in delivering our five-year strategy

Phil White
Chairman

Full year dividend
£61m
(2015: £47m)

Full year dividend per share
64.5p
(2015: 55.2p)

Earnings per share[2]
106.7p
(2015: 96.0p)

Results
The results reflect two key features of the year, the robust underlying trading of the Group and a drive to improve the efficiency and focus of our operations. The actions taken will streamline and simplify the Group's operations allowing us to invest in our core businesses in the future.

Group revenue[1] for the year ended 30 June 2016 increased by 26% to £4.2bn (2015: £3.4bn) and underlying operating profit[2] increased by 44% to £150m (2015: £104m).

The Property division generated an underlying operating profit[2] of £21.4m (2015: £22.7m) reflecting a return to more normalised levels as it continued its successful investment strategy. The Residential division performed strongly, with underlying operating profit[2] up 81% to £20.3m (2015: £11.2m), and an increase in margin reflecting the ongoing improvement in the quality of the owned land bank and an increased contribution from the mixed tenure business. The underlying operating margins[2] improved to 2.3% in the Construction division (2015[3]: 2.2%) and 5.2% in the Services division (2015[3]: 4.6%) with the latter benefiting from the acquisition of Mouchel.

Underlying profit before tax[2] increased by 45% to £125m (2015: £86m) with a statutory loss before tax of £15m (2015: profit £39m) reflecting the acquisition and integration of Mouchel and a portfolio simplification focused on our core businesses which commenced during the year.

Underlying earnings per share[2] (EPS) of 106.7p (2015: 96.0p) represents a 11% increase on the prior year. The Group's net debt as at 30 June 2016 was £99m (2015: £141m) which was significantly better than forecast particularly in light of capital investment of £31m in the Property and Residential divisions as well as upgrading systems. Strong working capital management has driven a material improvement in cash flows during the year.

This performance equates to a net debt to EBITDA ratio of less than 1 times, which has been achieved a year ahead of our Vision 2020 goal of a net debt to EBITDA ratio of 1 times by 30 June 2017. This year, we continued to make progress on our five-year strategy, Vision 2020, and its strategic goals which are focused on increasing the Group's profitability and scale of operations.

The acquisition of Mouchel last year has benefited the Group's presence in the highways market and brought new capabilities into the Group whilst strengthening our relationship with a key customer, Highways England. The Group is now the UK's largest provider of highway maintenance services, accelerating our growth in this important infrastructure services market. We also continue to have strong market positions in the regional building and housing markets.

The breadth and depth of capabilities within the Group positions us well to extend our integrated offer to a wider portfolio of clients and good progress was made during the year. The Board believes the Group's breadth of activities and strong order books provide visibility and resilience.

Our people
The people in our teams are important and influence the success of the Group. Their hard work, skills and diligence in delivering for our clients are second to none and the Company's continued progress is a testimony to the trust that our clients put in our teams.

We are committed to the safety and wellbeing of our people and have made excellent progress in the year by reducing our Group accident incidence rate by 34% which also provides a good indicator of the overall health of the business. I am also pleased to report that our recent employee survey has shown a 6% improvement on employee engagement, a significant achievement given the change that has taken place in the business during the year. I would like to thank all our people for their contribution and support during the year.

1 Continuing operations. Group and share of joint ventures.
2 Continuing operations. Stated before non-underlying items. See note 4 to the consolidated financial statements.
3 Restated to reflect the re-allocation of Mouchel Consulting from the Services division to the Construction division.

Governance highlights

The Governance Report on pages 46 to 88 (inclusive) provides details of the Group's approach to governance and how it supports the delivery of our Vision 2020 strategy. The highlights of the year included:

Nomination Committee
- Appointed three new Non-Executive Directors;
- Monitored the inductions of those Directors; and
- Reviewed the pipeline of potential future Board members.

Read more in the Nomination Committee report on pages 56 and 57.

Safety, Health and Environment Committee
- Implemented the results of the Group's behavioural safety self-assessment;
- Oversaw the integration of Mouchel's safety, health and environment (SHE) policies and procedures; and
- Monitored the Group's current SHE performance.

Read more in the Safety, Health and Environment Committee report on pages 63 and 64.

Risk Management and Audit Committee
- Monitored the Group's systems of risk management and internal control;
- Supported the Board in providing the viability statement for the first time; and
- Reviewed significant judgements made by management in preparing the 2016 financial statements.

Read more in the Risk Management and Audit Committee report on pages 59 to 62 (inclusive).

Remuneration Committee
- Reviewed the framework of executive remuneration at Kier;
- Consulted with shareholders with respect to the Executive Directors' remuneration for 2017; and
- Approved the Executive Directors' 2015 bonus payments, assessed the Executive Directors' performance against their 2016 bonus targets and set their 2017 bonus targets.

Read more in the Remuneration Report on pages 66 to 85 (inclusive).

Dividend
In line with the Group's progressive dividend policy, the Board is recommending a full year dividend for the year ended 30 June 2016 of 64.5 pence per share (2015: 55.2 pence), amounting to approximately £61m (2015: £47m). An interim dividend of 21.5 pence per share (2015: 19.2 pence) amounting to approximately £20m (2015: £13m), was paid on 20 May 2016. Underlying earnings per share provides 1.7 times (2015: 1.7 times) full year dividend cover. Subject to shareholder approval, the final dividend will be paid on 2 December 2016 to shareholders on the register at the close of business on 30 September 2016. A scrip dividend alternative will also be available.

The Board and corporate governance
The Board is committed to good governance, which we believe will support the delivery of the Group's strategy. In light of the Group's plans for future growth, and following recent significant acquisitions, we reviewed the Board's composition to ensure that it has the correct balance of skills, experience and knowledge. During the year, we were pleased to appoint Justin Atkinson, Adam Walker and Constance Baroudel as Non-Executive Directors. Richard Bailey stood down as the Senior Independent Director. I would like to thank Richard for his contribution to the Board. Justin has subsequently been appointed to the role of the Senior Independent Director and Adam as Chair of the Risk Management and Audit Committee.

Amanda Mellor has decided not to stand for re-election at the 2016 Annual General Meeting (AGM) and will, therefore, be leaving the Board with effect from the conclusion of the meeting. Amanda has made a significant contribution to the Board and its committees, latterly as the Chair of the Remuneration Committee, since her appointment in 2011. We would like to thank Amanda for her hard work during her time on the Board. Constance will assume the role of the Chair of the Remuneration Committee with effect from the conclusion of the AGM.

Brexit
The EU Referendum vote result has created some uncertainty albeit with no material impact on Kier to date.

Outlook
The Group's order book of £8.7bn provides a resilient backdrop for the year ahead. The Group continues to perform well in growing market sectors including infrastructure, housing and regional building, providing a breadth of capabilities to our clients. For the first time, 50% of Group profit now comes from our Services division where essential day-to-day services are provided to clients and we have long-term visibility of our future pipeline of work.

We remain focused on growing the business through improving operational efficiencies and investing in new technology to support our operations. We believe that our range of complementary businesses underpins the resilience of our operating model and the strength of our order book. Having completed the integration of Mouchel, we are well progressed with the simplification of our portfolio of businesses and focused on capitalising on the growth opportunities available to the Group. We remain confident of achieving our goal of double-digit profit growth on average each year to 2020.

Phil White
Chairman

21 September 2016

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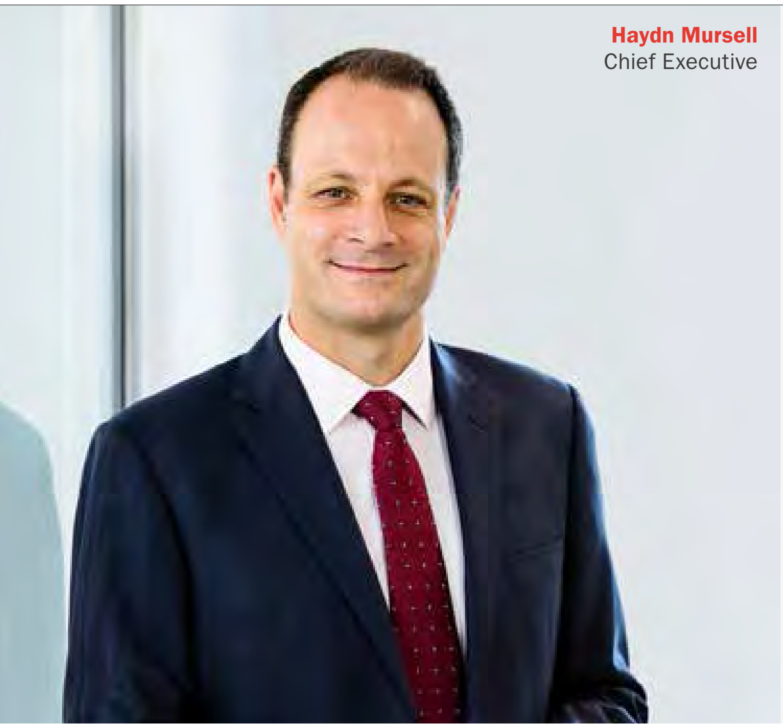
Financial Statements 89–148

Chief Executive's strategic review
A clear vision for our business



Haydn Mursell
Chief Executive

Revenue[1]
£4.2bn
(2015: £3.4bn)

Underlying operating profit[2]
£150m
(2015: £104m)

Combined Construction and Services order book
£8.7bn
(2015: £9.3bn)

Q&A with Haydn Mursell

Q. How would you summarise the past year?
A. The year has been one of consolidation and evolution for the Group.

We have made good progress on the goals I set out in last year's report. We are focusing on the businesses within the Group that will drive growth while improving the quality of our earnings by streamlining and simplifying the portfolio. We are also investing in technology and systems to provide the platform that will allow the Group to grow through better management information.

Our core businesses provide an integrated offer for our clients, and in each of these businesses we aim to be top three in our markets.

Q. Can you explain the results and the divisional performance?
A. We saw underlying profits from operations[2] of £150m with exceptional charges being incurred in the year relating to the acquisition and integration of Mouchel and the portfolio simplification.

Property had a good year. We achieved a return on capital employed (ROCE) ahead of an increased target we set ourselves. The division received strong support from joint venture funding partners, and its regional coverage and sector breadth provided considerable opportunity. Property has more than £1bn worth of projects already in the pipeline.

In Residential, we completed over 2,100 units, in line with our estimates. We continue to trade through our historical land bank, and reinvest capital in mixed tenure affordable housing. Having launched the New Communities Partnership, which aims to create approximately 10,000 new affordable homes across the UK over the next five years, we are seeing a significant level of interest, with meetings taking place with our local authority clients.

We have a £600m mixed tenure pipeline, which we see as a growing market for us to service and an important market to address the UK housing shortage.

The Construction division has enjoyed significant growth year-on-year, and has traded well, underpinned by our presence in the regional UK building market. In our Infrastructure business, we have a high-quality medium-term pipeline and it is a very important sector for us in both capital works and maintenance work. The UK needs better infrastructure – road, rail and utilities networks – as well as a balanced energy generation strategy as coal fired stations gradually go offline. We welcome the UK Government approval of Hinkley Point C where we are undertaking enabling works. We are one of six contractors appointed to the major works Lot of the new highways framework in the East of England. We are also in a pre-qualification position on High Speed 2 (HS2).

Internationally, we have a strong business in the Middle East, principally in Dubai which is preparing for Expo 2020 and is consequently investing in its infrastructure. The total Construction division order book is £3.4bn and covers more than 90% of our targeted revenue for the 2017 financial year.

The Services division has grown markedly year-on-year, more recently reflecting the integration of Mouchel. We are now the UK's leading provider of highways management and maintenance. We have a maturing utilities business; the facilities management business has shown double-digit growth; and the housing maintenance business has remained stable in the face of the 2015 Budget rent reductions. More than 90% of the Services division targeted revenue for the 2017 financial year is covered by the current order book. We have good visibility of earnings as far off as 2020 due to the long-term nature of our contracts.

The Group has a strong long-term order book of £8.7bn. This has reduced slightly reflecting the unwinding of the longer term contracts as is typical of the Services sector.

However, we are pleased that in the Construction division, the current order book of £3.4bn for secured and probable work, excluding framework wins, provides for more than 90% of forecast revenue for the 2017 financial year, on increasing volumes. In our Services division more than 90% of the targeted revenue for 2017 is secured, excluding potential extensions to the value of £2.7bn.

Following the integration of two sizeable acquisitions over the last two years, on 4 July 2016 we announced a simplification of the Group's portfolio. This, combined with challenging trading conditions in the Caribbean and the effect of the collapse of the oil price on the recyclates market, has resulted in a number of exceptionals which affect the statutory reported numbers. As the Group evolves, this focus on our core businesses and simplification of our portfolio will position us well for future growth.

Q. Moving on to the financial results, what do the figures say about where the business is?
A. Our revenue and underlying profit indicate that Kier has performed well in many of its market sectors during the year. The order books show that our core businesses are in good shape, and we can see the workload ahead of us for a number of years.

The balance sheet, which will be the 'engine' of our growth, has been strengthened by our excellent cash performance, and the additional support we have received from our funding partners. For example, we completed the raising of £81m of additional finance through the German Schuldschein market post the EU Referendum vote which confirms support for the Group. In summary, the figures show growth, resilience and a focus on our core businesses. We remain committed to maintaining a progressive dividend, which will broadly follow the Group earnings profile.

Q. What about the Group's net debt position?
A. Our goal was to achieve a net debt to EBITDA ratio of 1 times by 30 June 2017. We are pleased to have achieved this on an underlying profit basis a year ahead of schedule. Following an improved cash performance, our net debt position of £99m at 30 June 2016 is well ahead of the forecast range of £150m–£170m. Debt will always form part of our balanced capital structure as we choose to invest the Group's free cash flow in our asset-based businesses such as property development.

Q. You mentioned improving the quality of earnings. Can you elaborate?
A. We are focused on improving our margins. In the Construction division, margins will improve as infrastructure and international projects increase as a proportion of our total construction work. In Services, the acquisition of Mouchel has lifted the average margin and, as the Group generates cash, we will reinvest it into the Property division, which generates higher margins.

In the Residential division, we are trading through our historical land bank and new, cheaper land is an increasing proportion of our trading activities together with our growing mixed tenure activities, all of which will improve the Group's overall margin.

Q. What makes Kier's business model so strong?
A. With our breadth of capabilities, we are able to help our clients look at the whole-life cost of their assets. We can invest our own capital or take an equity share in a project, then construct the asset and look after it for the client. We call this proposition; Invest, Build and Maintain.

Having such a balanced set of businesses offers the Group two advantages: complementary opportunities providing corresponding capital flows, and a natural resilience through diversification across different business cycles. For example, our Construction and Services divisions generate cash that we can invest into the Property division. In addition, while some of our infrastructure clients have capital projects requiring our civil engineering skills, others want maintenance services. However, it is to those that require both that we can provide an end-to-end service. Many of our clients, such as local authorities, continue to be under financial pressure and need greater control over budgets, or to derive income from their assets, all of which we can help them with. I do not believe any of our competitors have such a broad range of services which they can cross-sell.

Q. So the integrated offer approach is a competitive advantage?
A. Definitely. The challenge is communicating this USP, internally to our teams and from there on to our client base. We know from experience that where we provide a breadth of capabilities to existing clients, we find our service delivery is often much more efficient for them and us based on a clear, well-understood relationship. Cross-selling requires the versatility and agility to establish deeper client relationships. This is the single biggest opportunity for Kier. We already have examples of where we are doing just this for our clients: Highways England, Kent County Council, North Tyneside Council and Northamptonshire County Council to name just a few.

Q. What does the recently announced streamlining of the portfolio entail?
A. We have strict financial criteria that all our businesses must meet. We also want to ensure that each business provides a long-term strategic fit in the Group.

The Kier Executive team

[1] Continuing operations. Group and share of joint ventures.
[2] Continuing operations. Stated before non-underlying items. See note 4 to the consolidated financial statements.

Chief Executive's strategic review continued

Our vision in action

Update on the Mouchel acquisition
In June 2015, Kier acquired Mouchel, creating a sector leader in the growing UK highways management and maintenance market.

Covering over 43,000km of roads to keep more than 5m people on the move, we are one of the leading providers of highways management and maintenance services for both strategic and local authority roads across the UK.

The Group provides a range of capital works and maintenance services to Highways England. Our highways footprint covers approximately one-fifth of the UK landmass. We provide a full range of planned and reactive building and maintenance services, from major road schemes and surface dressing to gully emptying, gritting and snow clearing. Our breadth of experience across a variety of delivery models is gained and shared through our highly collaborative approach, enabling us to benchmark performance, optimise best practice and share knowledge, assets and skills.

For example, clients in the UK market generally prefer their consulting partner to be a separate body from their contracting firm. As a consequence, we have undertaken a strategic review of Mouchel Consulting, which accounted for c15% of the acquired revenue of the Mouchel acquisition, with the possibility of a sale of that business with an anticipated profit on the completion of any sale should that arise.

In addition, in the Services division, despite stable operations, our Environmental Services business continues to be affected by the low oil price, as recyclate prices correlate closely to this. As a result, we have taken a provision, which provides for all future cash outflows on the two environmental contracts affected. Finally, following challenging trading conditions, we are winding down our Caribbean operations after 50 years of trading.

Where possible, we will redeploy employees to other Kier geographies. All these developments will ensure our focus is where it needs to be – on the core businesses.

Q. How do you see the Group's international ambitions developing?
A. While our international business is currently fairly modest, it has grown recently by adding Mouchel's Australian highways operations. I believe it would be advantageous for the Group to have a larger proportion of revenue from international operations, as it would provide a natural hedge to our UK businesses. However, I am also aware of the increased risk of doing business internationally, and we do need to ensure that we generate an adequate return and manage associated risks.

Therefore, if we grow our overseas operations, we will do so in a select number of developed locations where there is a well understood contractual environment, with clients we know well and where we understand the nature of the marketplace.

It is also important to plan resourcing of overseas projects, and to have a pipeline of work in any particular region, rather than one-off projects. British construction and engineering are well respected abroad and there are further opportunities available with greater political impetus and support.

Q. How has the integration of Mouchel gone?
A. It has gone well and is now complete. We used the same in-house integration team we had for the May Gurney acquisition which enabled us to share our learnings from that process.

The 5–10 year nature of highways contracts provides good long-term visibility of earnings. We are now the largest highways maintenance provider in the UK. We have integrated Mouchel's business processing operations with Kier's facilities management operations, creating Kier Workplace Services. The total integration has saved £4m in the 2016 financial year and we expect it to save £15m in the 2017 financial year, in excess of our original expectations. As a result, the integration costs increased in light of the increased scope undertaken.

The acquisition remains on track to deliver ROCE in excess of our target of 15% so although we spent more money on integrating Mouchel, we have also created more savings, so the return has justified the increased expenditure.

Q. How does a major acquisition such as this affect company culture?
A. Kier has a strong culture emanating from its management buy-out back in the 1990s and many of our employees are shareholders. This creates great interest in the success of the Company and a sense of belonging, which has stayed with Kier over the years and is one of our strengths. However, cultural integration takes time to truly embed. At Kier, we have a can-do culture supported by our values of being collaborative, enthusiastic and forward-thinking. We also need to ensure we retain the best from those companies that we have acquired. This is something that is important to me personally.

Q. What about safety, which is also ingrained in a company culture and is one of your non-financial KPIs?
A. We have new, strong leadership within our Safety, Health, Environment & Assurance team. We continue to see improvements in how people think about safety – as well as health and environment. However, it is important to keep the focus not just on processes but very importantly, on people's behaviour as well. In the UK, our accident incidence rate (AIR) is below 200 for the first time ever, showing a marked decline in reported accidents, and we are working hard to maintain that downward trend. A number of our businesses are achieving a zero AIR, a great accomplishment. We have focused on visible leadership programmes, run a number of well-received internal campaigns about health, safety and wellbeing, and have been evolving our behavioural change programme, ensuring people do the right thing for the right reasons. Internationally, the incident rate has also dropped markedly, reflecting the focused work we are undertaking in those regions.

Q. So people are generally responding well to the change within Kier?
A. Yes. There has been considerable change across the Group with an overall 4% headcount reduction during the year. The latest employee engagement survey scores are encouraging, showing improved engagement and enablement scores. In general terms, I believe these scores show we are investing in our people, giving them the right tools and that they feel good about working for Kier. I am proud of their contribution and thank them for their support.

One challenge is to improve the diversity of our employee base, particularly increasing the ratio of female to male employees. The industries in which we operate are making moves in the right direction, and we are a big advocate of this. We have to accept this will be a long-term challenge, but we are playing our part. We are also focused on promoting Kier to those starting out in their careers, making sure that we help students understand the opportunities that exist in our sectors.

Q. What feedback do you get from customers?
A. All the clients I speak to – and I try speak to as many as possible – are very positive about Kier, and are willing to give their views and also to listen to what we have to say. I find our clients are happy to have candid and informal conversations, which is a testament to our teams of people who have established these relationships. Our customer satisfaction scores continue to be very good.

Q. The major news at the end of your financial year was the EU Referendum result. How will this affect the growth you anticipate?
A. Given our healthy order books, we are in a strong position and have seen no material impact to the Group's trading to date. We have solid pipelines and our largely non-speculative approach to property development positions us well. The Services division, representing 50% of the Group's profits and providing essential every-day services, is relatively unaffected by Brexit. Overall, the Group is continuing to pursue growth in 2017.

Q. What is the outlook for the Group?
A. Our focus remains on improving our operational efficiency and consequently improving our margins. We believe the strength of our business model gives us the versatility and agility to deliver on our integrated offer which provides Kier with a competitive advantage in the marketplace. We remain confident of achieving our goal of double-digit profit growth on average each year to 2020. I look forward to the future with confidence.

Haydn Mursell
Chief Executive

21 September 2016

Our markets
A positive market environment

Kier's markets are largely underpinned by fundamental drivers that will endure regardless of short or medium-term economic adjustments. These drivers include demographic change, changes in the way we live and pressure on the UK Government's finances. The result will be increasing demand on essential infrastructure that Kier is uniquely placed to benefit from.

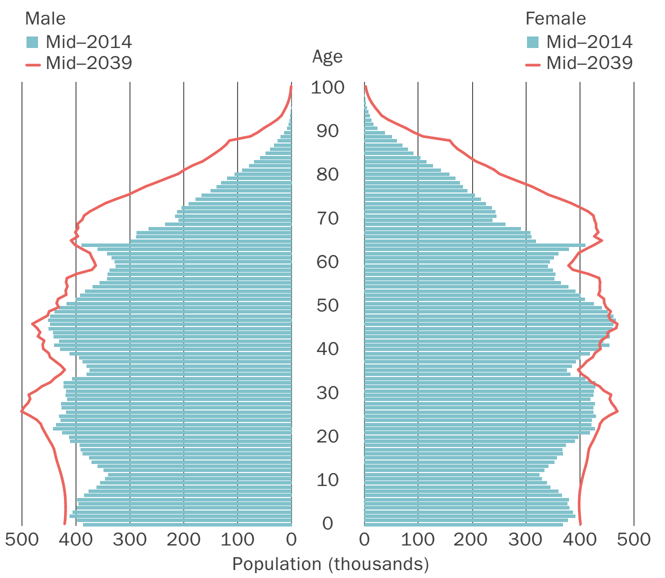
Solid long-term fundamentals

The UK population continues to grow

The UK population is expanding. Recent projections show the population reaching 74m by 2039 (2015: 65m), with net migration accounting for around half of this growth.

We are all living longer. The number of people over 85 is forecast to increase by 140% by 2039, and as people age they are staying healthier, and therefore able to live independently for longer, remaining part of the active population. However, when elderly people do need care, they tend now to need it later and more intensely, adding strain to the NHS and local authority funding and infrastructure, and consequently driving changes in public policy.

Age structure of the UK population, mid-2014 and mid-2039



Source: ONS, 2015

The 'mini baby boom' of children born in the early 2000s is now moving into secondary education – the number of 11-15 year olds will rise by 21% by 2025 – and in the coming years the number of university places needed will increase, adding to the demand on social infrastructure.

Changes in the way we live requires infrastructure and housing provision to adapt

7.7m people in the UK live alone, of whom 4.1m are aged 16-64. Overall, the total number of households has increased by 7% since 2005, increasing the already strong demand for housing.

Technology is an integral part of our lives as consumers and businesses. In transport, technology enables more efficient use of motorway road space, and keeps traffic flowing when there is an accident. Homes are increasingly smart with technology now available to control and monitor appliances and utilities remotely.

Overall energy demand is expected to increase between 2015 and 2035, with electricity usage forecast to increase by 20%.

The longer-term trend involves a slightly larger proportion of demand coming from households, supported by rising average income, despite a small decrease in the short-term.

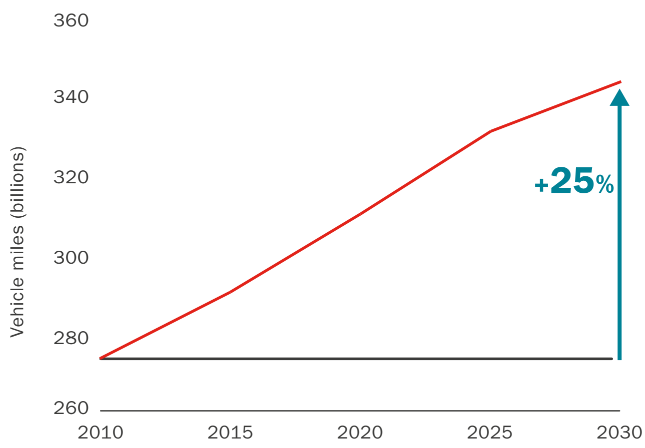
Investing in infrastructure to support economic growth

Following the EU Referendum, UK economic growth is now forecast to be slower than previously expected. The UK already has a number of major transport and energy infrastructure projects in the pipeline and, whilst the new Government is still formulating its plans, it is possible that it may choose to use infrastructure, construction and maintenance spend to help stimulate the economy.

Many advanced economies, such as Australia, have taken this approach and prioritised infrastructure investment to stimulate the economy. The short-term effects on demand and long-term benefits in raising the economy's productive capacity are backed up by recent studies by the International Monetary Fund.

Good transport links are vital to a country's productivity. The UK's roads, railways and airports are some of the most congested in the world. Due to the combined effects of population growth and increased travel, the Government has forecast traffic on our roads to increase by 25% from 2010 to 2030 and McKinsey has forecast, over the same period, a 50% increase in rail and travel and a 75% increase in flights departing from the UK.

Road miles travelled in England and Wales



Source: Department of Transport, 2015

In energy, the UK risks a supply crisis without further investment in more power generation capacity. Given rising demand, from economic and population growth, and reduced supply, from the closure of coal and nuclear plants, the Institution of Mechanical Engineers is forecasting a supply gap of 40-55% by 2025, before interventions.

Ongoing pressure on public finances

The UK Government's finances remain under pressure. Whilst some clarity on the Government's fiscal strategy is expected in the Autumn Statement, it is likely that austerity in some form will continue for the foreseeable future. In addition, to reduce local authority expenditure, austerity has also impacted local government structures, with increased collaboration between councils, combined authorities and the changing role of Local Enterprise Partnerships. It is also clear that public bodies need to find new ways of delivering public services and enhancing the reach of constrained budgets.

International opportunities continue
In the Middle East, and particularly in GCC countries, there has been a reduction in construction spend as a result of low oil prices. However, in the UAE, where Kier is focused, expenditure continues to be resilient, with growth forecast at over 6% per annum to 2020. In Australia, infrastructure spend continues to be prioritised by both federal and state governments in order to stimulate the non-mining economy.

How this impacts on our markets
Investment in new infrastructure assets across the markets in which Kier operates (such as health, education, transport, energy, housing and utilities) will be needed to keep up with the population growth.

For example in housing, England is projected to add over 5m households by 2039. With an average annual growth rate of approximately 210,000 households per annum, against industry supply of 143,000 new homes per annum, the current situation of excess demand is likely to continue.

The supply/demand imbalance is likely to result in house price inflation over the medium term, notwithstanding any short-term price fluctuation. Particularly with wage inflation subdued, this means that there will be growing demand for affordable housing. Taken together with the growth in smaller households, we would expect housing demand to continue to increase.

Local authorities continue to explore ways in which they can increase their spending power (on reduced resources) by leveraging the investment capability of businesses such as Kier, and extract enhanced value from public assets and services.

In education, the increase in pupil numbers will require further investment in new schools and subsequently greater capacity at university level, requiring investment in student accommodation, and homes when they graduate. Kier can provide the necessary infrastructure at every stage of this life journey, from school to a young person setting up their own household.

In health, rising population numbers and life expectancy will require greater investment in hospitals and care homes. It will also drive different customer service approaches in our Services businesses where our teams interact with the public.

The National Infrastructure Pipeline, worth £483bn, is critical to support the population and economic growth. £410bn of this is being invested in energy, transport and water, and £58bn in social infrastructure – all areas where Kier has a strong presence.

The importance of roads to the UK's long-term development was specifically recognised through the Road Investment Strategy (RIS1) that runs to 2020 and is protected by legislation. Highways England is currently developing RIS2, running to 2025. This approach reflects the fact that the need for the roads is driven by the long-term and fundamental considerations of demographic and economic growth.

A resilient business with strong market positions

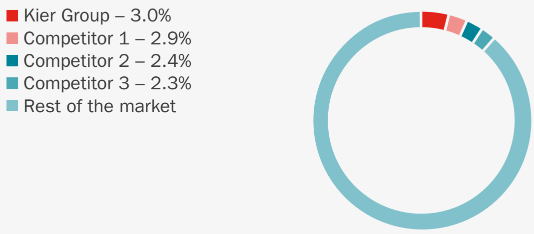
Kier's Vision 2020 strategy includes an objective to be in the top three in each key market. We are already achieving this in a number of areas:

- #1 position in UK strategic highways maintenance
- #1 in UK regional building
  - #1 in education construction contract awards*
  - #1 in health construction contract awards*
- #3 in UK social housing maintenance
- #1 in Australian highways maintenance

* Source: Barbour ABI, 12 months to June 2016

UK construction and services market share

The top four companies in the industry share just over 10% of total industry spend. Of these, Kier at 3.0% has the largest share.



Source: ONS, 2015 – construction, repair and maintenance, excluding private housing maintenance

Opportunities

These are some of the future opportunities we anticipate:

- Impact of population growth on housing and social infrastructure
- Government fiscal strategy targets infrastructure growth
- Austerity encourages outsourcing and innovation
- Weak sterling leads to increased inward investment
- Housing shortage and affordability
- Technology combined with increasing road use drives smart motorways
- National Infrastructure Pipeline
- Continued growth in global infrastructure spend

Risks

These are some of the potential risks faced by the Group:

- Global economic slowdown affecting all territories
- Brexit uncertainty impacting investment
- Political uncertainty and delayed decision-making
- Weak sterling causes cost inflation
- Skills shortage
- Regulatory changes
- Banks reduce the availability or affordability of mortgages
- Reduced demand for property assets

Our business model
How we create value for our stakeholders

A resilient and agile business model

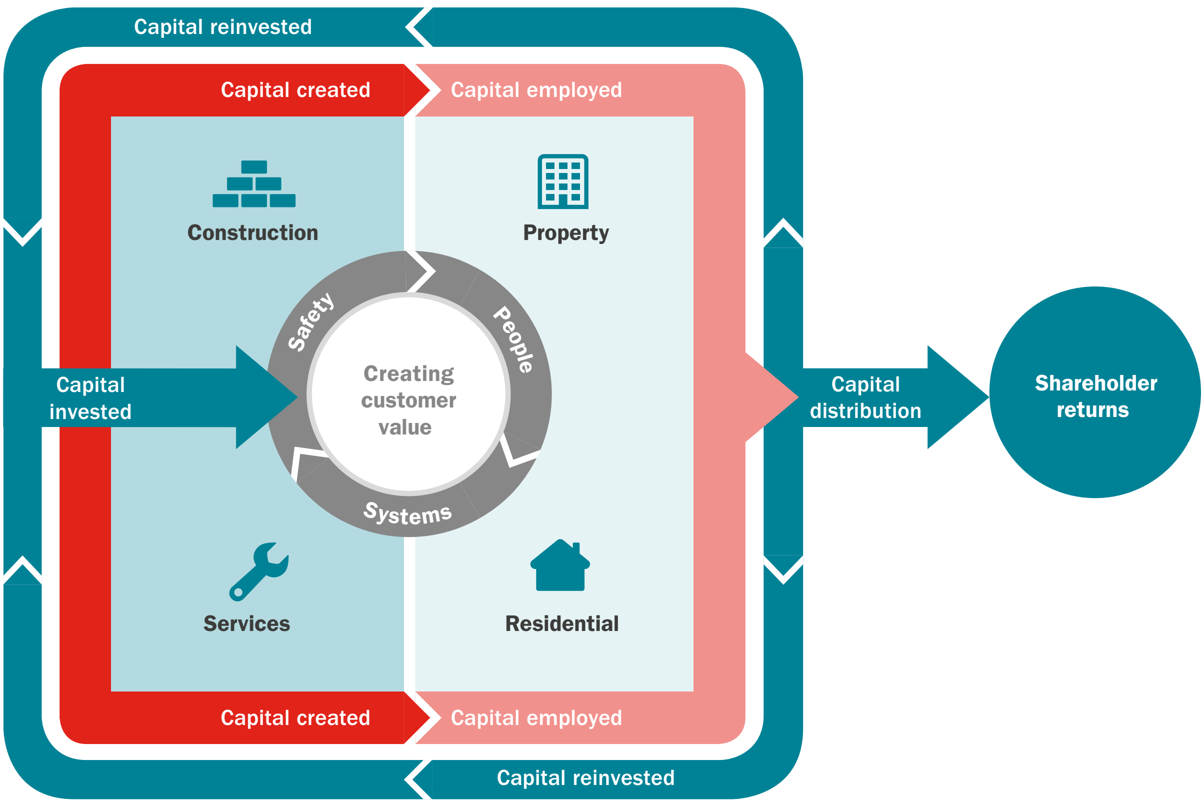
Our Group
Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play. We operate across a range of sectors including defence, education, health, housing, industrials, power, property, transport and utilities.

A compatible set of businesses
This broad, complementary set of activities is the foundation of our business model. It means we have the basis to maximise returns by using capital from our cash generative businesses to invest in asset-intensive activities. To achieve this requires versatility and agility.

Investing to enable our growth
The investment we continuously make in our capabilities – safety, people, systems – gives us that versatility and agility, and is key to optimising the return from our integrated offer. This allows us to adapt to changing client needs and to offer more to each customer, using the full scope of our Group in the process. It underpins our future growth and ensures that we can take a safe and risk-managed approach to that growth.

Visible income streams
Our well-matched spread of businesses ensures that we can develop income streams that are visible inasmuch as they are reliable and dependable looking forward. The income streams are reliable because construction projects are tightly managed, and real estate and residential housing investments are predominately non-speculative. They are dependable because Kier's Services businesses, which make up 50% of Kier's profits, provide day-to-day essential public services. Asset maintenance in areas where spend is mandated by regulation or statute (eg water, strategic highways) have contracts with long durations.

These factors enable us to be more certain about returns to our shareholders over the medium-term while creating and delivering exceptional value for our customers.



Our strategy
How we maximise value

Our six strategic priorities

We will build continually on our business model to enable us to achieve our growth plans and implement our Vision 2020 strategy.

This requires us to invest in and develop further the core capabilities of the Group. In particular, we will seek to maintain strong client relationships by delivering sector-leading customer experience. It also requires highly motivated teams aligned to our strategy and our values, and robust technology and back-office systems to underpin our efforts.

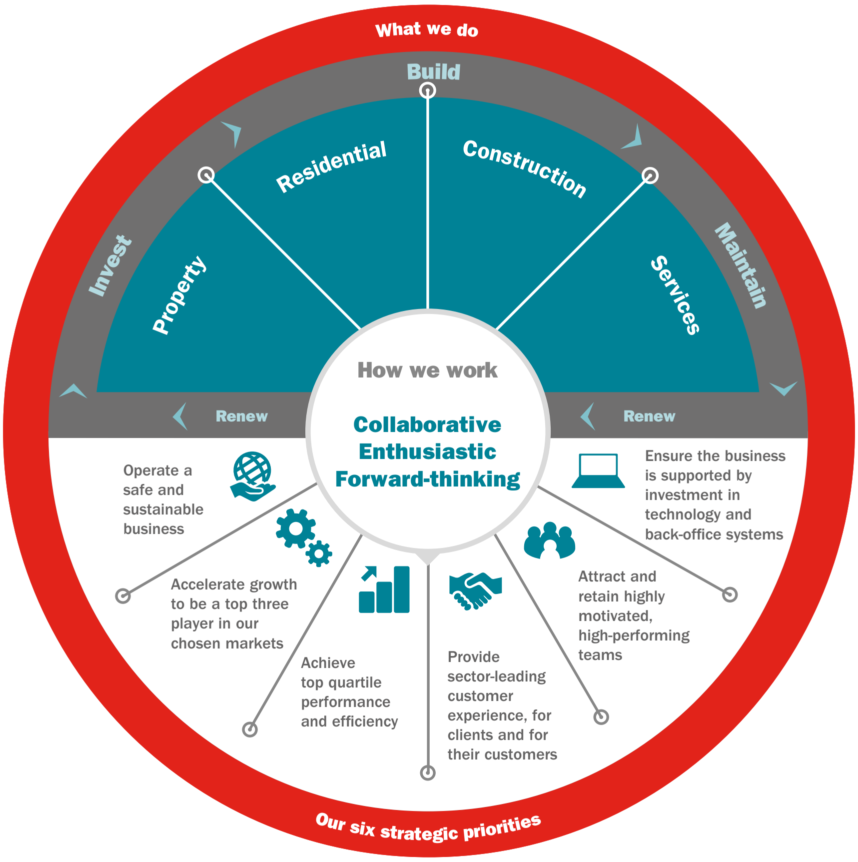
Our strategic priorities are focused on building such capabilities and on driving the sustainable growth and performance of our business.

Related information:

Read more
Chief Executive's strategic review
Pages 6 to 9

Read more
KPIs
Pages 20 and 21

Read more
Principal risks and uncertainties
Pages 27 to 31



Our strategic performance
Progress against our vision and strategic priorities

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 strategy – double-digit growth
Our strategy aims to leverage our integrated offer to deliver our Vision 2020 commitment of double-digit annual growth in operating profit from 2014 to 2020.

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

To achieve Vision 2020, we have identified six imperatives:

- Operate a safe and sustainable business;
- Accelerate growth to be a top three player in our chosen markets;
- Achieve top quartile performance and efficiency;
- Provide sector-leading customer experience, for clients and for their customers;
- Attract and retain highly motivated, high-performing teams; and
- Ensure that the business is supported by investment in technology and back-office systems.

Our priorities are set at a Group level with detailed targets and performance plans identified for each objective. These targets are reviewed and updated regularly to ensure that they take account of changes in our markets, our business and financial performance. These are further aligned and co-ordinated through the business plans of our four divisions.

Strategic priorities

Operate a safe and sustainable business

Accelerate growth to be a top three player in our chosen markets

Achieve top quartile performance and efficiency

Provide sector-leading customer experience, for clients and for their customers

Attract and retain highly motivated, high-performing teams

Ensure the business is supported by investment in technology and back-office systems

What we did in 2016	What we are going to do in 2017
• Our Group AIR has improved from 319 to 211 • Rolling out new leading and lagging safety indicators • Wellbeing programme launched across the Group • A new driver risk management programme rolled out • 27% reduction in carbon emissions per £m revenue • Engagement with institutional shareholders on sustainability, both 1:1 and in a group forum • Integrated Mouchel into the Kier corporate responsibility programme • Introduction of a new Code of Conduct for all Kier employees and connected parties (eg supply chain)	• Launch new reporting platform to further enhance management information on SHE metrics • Embed new leading indicators on safety • Deliver a material reduction in our all accident incidence rate • Continue to drive our behavioural safety programmes • Additional client and shareholder engagement events on sustainability to ensure alignment • Create a methodology for assessing the social value generated through our supply chain • Develop an integrated training programme to support our culture and new Code of Conduct
• Leading player in UK infrastructure markets • Leading player in UK regional building • Leading player in Australian highways maintenance (new market) • Top three in UK housing maintenance, with new build capabilities • Integration of Mouchel now complete • Strengthened our presence in defence and aviation	• Complete the strategic review of Mouchel Consulting • Exit the Caribbean operations • Invest further in our customer relationship management (CRM) capability and key account management • Convert opportunities in the power and energy sector • Continue portfolio review
• Mouchel synergies higher than anticipated, with Mouchel on track to deliver ROCE in excess of our 15% target in FY17 • Standardised commercial governance processes rolled out • Group KPIs reviewed and refined to ensure continued relevance as the business grows and develops • Sold our mining activities in Saudi Arabia • Explored options to realise value from our UK mining business	• Introduce our new Group Business Assurance System • Drive efficiencies in Services businesses through roll-out of new front-line systems • Mitigate the impact of recyclate pricing in environmental services contracts
• Client satisfaction approach and net promoter scores embedded and being used in all businesses • Maintained 90% client satisfaction • Measures for our clients' customers' satisfaction now in place as appropriate at business unit level	• Launch our first Group-wide customer policy • Drive enhancements to our integrated offer • Further develop our key account management and cross-selling • Maintain customer satisfaction levels above 90% • Continue to embed our Listen, Act, Measure programme
• Employee engagement improved to 60% • Launched Kier Star Awards scheme to recognise employee contribution and achievement • Developed a diversity and inclusion plan, to build a more balanced business • Implemented a new single performance management • Refreshed the leadership development and learning offer	• Continue action to increase employee engagement, including the launch of a line manager resource site • Implement a talent framework to nurture and develop internal talent • Continue action to improve employee attraction and retention • Implement Kier Learning and Development Academy offer • Improve inclusion and diversity across the business • Launch a flexible benefits offer for employees
• Launched Oracle enterprise resource planning (ERP) system on time • Developed programme for financial shared services centre consolidation • Integrated Mouchel back-offices and IT • Established plan for front-office systems in Services businesses • Kier's Building Information Modelling (BIM) verified as complying with BIM Level 2 (PAS 1192 and BS 1192)	• Roll-out of Oracle ERP system Group-wide • Consolidate financial shared services centre into a single support centre • New front-office systems in the Services division go live

Related information:

Read more
KPIs
Pages 20 and 21

Read more
Resources and relationships
Pages 22 to 25

Read more
Principal risks and uncertainties
Pages 27 to 31

Strategy in action

Wallsend, North Tyneside – Kier Living and Services providing affordable housing

Working together to get the job done

A joint venture between Kier Services and North Tyneside Council was formed to oversee the building of affordable homes in the North-East. But when the opportunity arose for a technically challenging 41-unit scheme at Wallsend, Kier Living took on the project in light of the project size and specialist skill required.

With Kier Services looking after the pre-construction process, including surveys, designs and early procurement, Kier Living took on the role of developer for 31 houses and 10 rental apartments. The project involved demolishing a former police station – and recovering a previously buried 'time capsule' for the local constabulary – as well as obsolete housing and offices. The timber frame houses, clad in brickwork, provide excellent insulation levels to keep residents' fuel bills down.

Kent County Council – Kier Construction and Services providing a wide range of facilities and asset services

Kier working across Kent

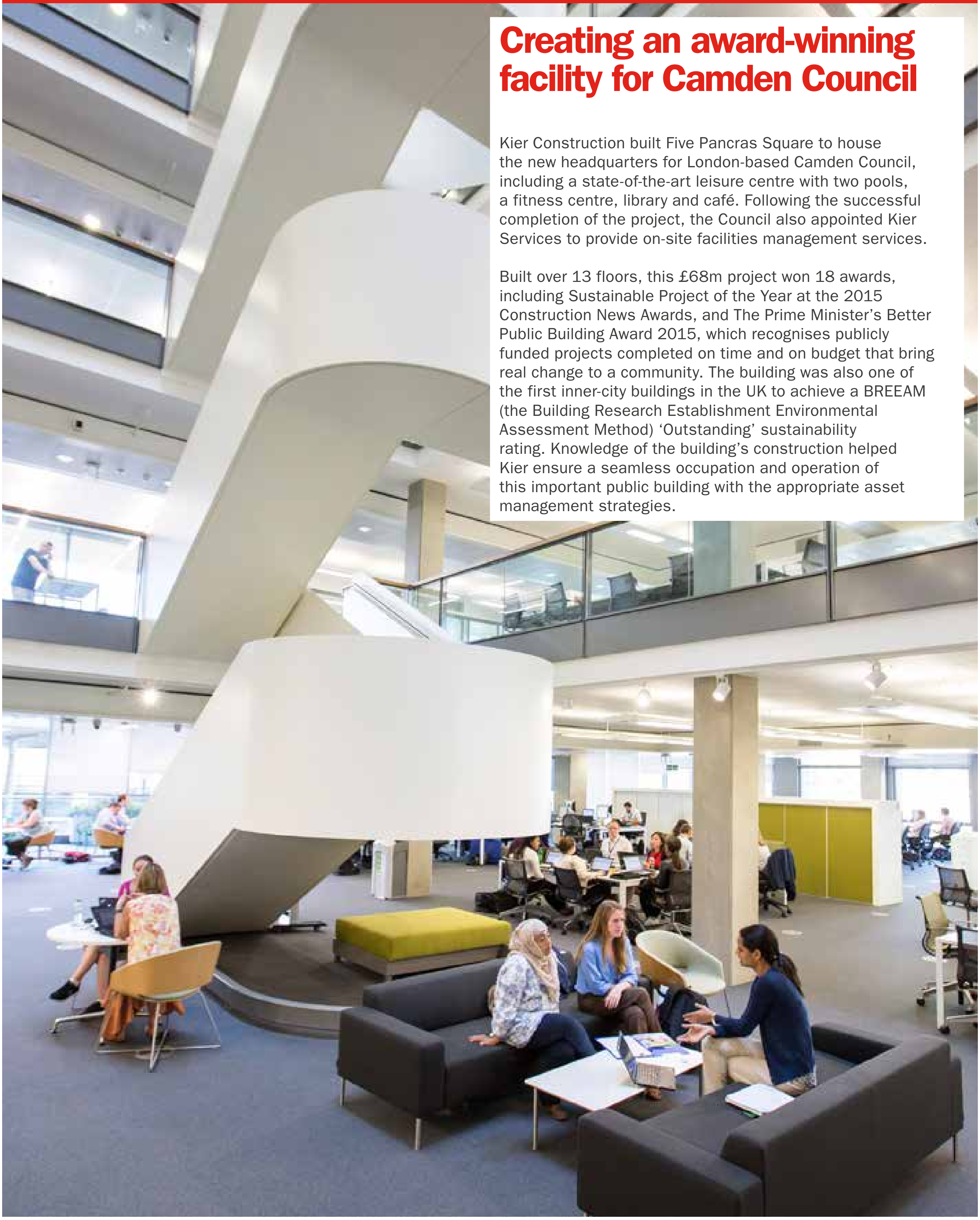
Following Kier's Invest, Build, Maintain approach, a relationship that started in 2008 with the Property division's investment in the Kent Local Education Partnership (LEP) has matured such that Kier Construction and Kier Services now manage wide-ranging activities on behalf of Kent County Council (KCC).

Kier Construction's regional office in Aylesford is well positioned to cover the building needs of the Council and has secured the current Kent batch of five Education Funding Agency projects. In addition, they deliver 5 to 10 smaller jobs a year through the Scape Minor Works framework, to which Kier was appointed in 2012, creating more new school places through Kent's Basic Needs Programme.

In January 2015, KCC awarded Kier Services a newly created total facilities management contract. It comprises 116 services across the entire reach of their corporate estate – care homes, libraries, council offices and schools – around 115 commercial buildings and 700 schools in all. This is the first time the Council has outsourced the entire range of facilities management services, valued at £30m, across its entire estate, and each premises is able to buy the whole suite or selected services.

Strategy in action continued

Five Pancras Square, London – Kier Construction and Services creating a community facility



Creating an award-winning facility for Camden Council

Kier Construction built Five Pancras Square to house the new headquarters for London-based Camden Council, including a state-of-the-art leisure centre with two pools, a fitness centre, library and café. Following the successful completion of the project, the Council also appointed Kier Services to provide on-site facilities management services.

Built over 13 floors, this £68m project won 18 awards, including Sustainable Project of the Year at the 2015 Construction News Awards, and The Prime Minister's Better Public Building Award 2015, which recognises publicly funded projects completed on time and on budget that bring real change to a community. The building was also one of the first inner-city buildings in the UK to achieve a BREEAM (the Building Research Establishment Environmental Assessment Method) 'Outstanding' sustainability rating. Knowledge of the building's construction helped Kier ensure a seamless occupation and operation of this important public building with the appropriate asset management strategies.

3 Sovereign Square, Leeds City Centre – Kier Property and Construction building for the future

A new office development regenerating the city of Leeds

Kier Property, working with Kier Construction, has created a regeneration project, 3 Sovereign Square – a first-class retail, leisure and office development in the heart of the city. This BREEAM 'Excellent' building offers 93,240 sq ft of cutting-edge office space over five floors, flexibly designed and substantially pre-let to a UK law firm with international reach. All-round glazing provides an abundance of natural light, while the ground floor includes 10,400 sq ft of retail space.

The building will be completed on budget, on time and to the highest quality. This new development is part of a trio of buildings built around a new green public space that provides a link between the city centre and the newly regenerated South Bank and is seen as key to the city's future economic growth. The investment was sold on completion to Leeds City Council.

Key performance indicators
Measuring the successful delivery of our strategy

Financial[1]

Key performance indicator | **Progress in 2016** | **Comment**

Revenue growth[2]
Strategic focus
Deliver annual revenue growth in line with Vision 2020

Relevant strategic priorities:

£4.2bn

2016	£4.2bn
2015	£3.4bn
2014	£2.9bn

In the year we achieved a 26% growth in revenue. This includes a full-year of contribution from the acquisition of Mouchel and organic growth (8% in continuing activities), with strong contributions from our Building UK and Residential businesses.

Underlying operating profit[3]
Strategic focus
Maintain consistent underlying operating margins

Relevant strategic priorities:

£150m

2016	£150m
2015	£104m
2014	£87m

A 44% increase in underlying operating profit, giving us a CAGR of 31% since we launched Vision 2020 in 2014, well ahead of stated target of average double-digit growth.

Since 2014, underlying operating margins have improved from 3.0% to 3.6%.

Underlying EPS[3]
Strategic focus
Achieve long-term growth in EPS

Relevant strategic priorities:

106.7p

2016	106.7p
2015	96.0p
2014	87.5p

Underlying EPS improved by 11% in the year. This reflects the full-year impact of Mouchel, and increased profits in our residential, building, international and utilities businesses.

ROCE
Strategic focus
Achieve ROCE above the Group's target of 15% based on average monthly capital employed

Relevant strategic priorities:

14.6%

2016	14.6%
2015	13.9%
2014	14.8%

ROCE improved due to improved margins in the Services division, the integration of Mouchel, and working capital improvements.

Underlying economic profit[4]
Strategic focus
Achieve steady growth in economic profit

Relevant strategic priorities:

£67.8m

2016	£67.8m
2015	£39.5m
2014	£33.6m

We seek to generate returns that exceed our weighted average cost of capital, currently 8.0%, to ensure that we add value to investment decisions.

Economic profit increased by 72% in the year as a result of increased profitability and reduced cost of capital.

Debt cover[5]
Strategic focus
Ensure debt is conservatively managed to improve cover towards a medium-term target of 1.0x underlying EBITDA

Relevant strategic priorities:

0.7x

2016	0.7x
2015	1.6x
2014	1.7x

We have achieved and beaten our target of 1.0x underlying EBITDA ahead of schedule. We have maintained the discipline of ensuring that peak net debt is asset backed. Additional cash from working capital disciplines supports investment options.

Shareholder return
Strategic focus
Maintain a progressive dividend policy and deliver annual growth

Relevant strategic priorities:

64.5p

2016	64.5p
2015	55.2p
2014	57.6p

The total dividend declared this year is £61.2m, which represents a CAGR of 25% since 2014, when Vision 2020 was launched.

Strategic priorities:

- Operate a safe and sustainable business
- Accelerate growth to be a top three player in our chosen markets
- Achieve top quartile performance and efficiency
- Provide sector-leading customer experience, for clients and for their customers
- Attract and retain highly motivated, high-performing teams
- Ensure the business is supported by investment in technology and back-office systems

Strategic Report 1–45
Governance Report 46–88
Financial Statements 89–148

Non-financial

Key performance indicator	Progress in 2016	Comment
Safety – Group accident incidence rate (AIR) **Strategic focus** Achieve year-on-year improvement in the Group AIR, and remain below the Health and Safety Executive benchmark for the UK **Relevant strategic priorities:**	**211** 2016: 211 2015: 319 2014: 342	We have achieved a 34% reduction in reportable accidents across the Group due to our concerted efforts on training and behavioural change. As part of Kier's commitment to safety, every Director undertakes site safety visits on a monthly basis, as a minimum. 4,729 visits were completed last year (target 3,600 visits).
Customer experience **Strategic focus** Deliver a high level of customer satisfaction which is key to supporting sustainable long-term growth across our markets and client base **Relevant strategic priorities:**	**90%** 2016: 90% 2015: 90% 2014: n/a	Our customer satisfaction measure is now embedded across our businesses. 763 customer interviews took place this year, covering 87% of our revenues, compared with 394 interviews in 2015. Our net promoter score of +49 reflects a strong focus on customers.
Employee engagement **Strategic focus** Achieve a continuous improvement in employee engagement survey score **Relevant strategic priorities:**	**60%** 2016: 60% 2015: n/a 2014: 54%	Employee engagement has improved to 60% with an increase in employee participation in the survey of 15% to 71%. Leaders across the business are focused on the action needed to continue the improvement.
Employee retention **Strategic focus** Retain employees at or above industry average **Relevant strategic priorities:**	**87%** 2016: 87% 2015: 85% 2014: 88%	Employee retention has improved to 87%. Actions to improve retention further will continue, including a focus on induction for new joiners, clearer career pathways and access to development opportunities for all employees.
Sustainability **Strategic focus** Maintain a high ranking in Business in the Community's Corporate Responsibility Index **Relevant strategic priorities:**	**87%** 2016: 87% 2015: 87% 2014: 85%	We have maintained our score of 87% against a higher bar. This was due to improvement in areas such as corporate strategy, integration, environmental management, marketplace management and disclosure.

1 Financial information in this table relates to continuing operations.
2 Group and share of joint ventures.
3 Stated before non-underlying items. See note 4 to the consolidated financial statements.
4 We calculate economic profit by taking underlying operating profit and subtracting average capital employed, multiplied by the weighted average cost of capital.
5 Including finance leases.

Related information:

Read more
Resources and relationships
Pages 22 to 25

Read more
Financial statements
Pages 89 to 148

Resources and relationships
Our sustainable approach underpins our strategy

A key strategic priority of the Group's Vision 2020 strategy for growth is to 'operate a safe and sustainable business'. 'Responsible Business, Positive Outcomes' (RBPO), our strategy for a sustainable business, defines our approach. Progress against the targets identified in RBPO, listed below, not only helps deliver this strategic priority but also directly or indirectly supports the delivery of three other strategic priorities:

- Addressing performance and efficiency;
- Sector-leading customer experience; and
- Attracting and retaining highly motivated teams.

By defining the broad social and environmental dimensions of our business, we are able to concentrate on those key resources and relationships that have the most material relevance to the success of the Group. In turn, we can identify those issues of risk which we can either mitigate or turn into business or efficiency opportunities. The areas covered in more detail in this section have been identified by shareholders during our engagement activities in the year as being of particular importance.

During the year, Kier made significant progress in embedding RBPO across the Group. In particular we have established core performance reporting criteria and processes for each of our businesses. A network of business unit Corporate Responsibility (CR) Champions report to a newly established CR Leadership Group (CRLG), led by Claudio Veritiero, Group Strategy and Corporate Development Director. The CRLG reports on consolidated performance to the Executive team, leads strategy development and ensures that RBPO is aligned to Vision 2020.

For further detail on Kier's progress against Vision 2020 and RBPO please see our Corporate Responsibility Report for 2016, http://www.kier.co.uk/crr2016.

		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

Related information:

Read more
Our strategy
Page 13

Read more
Key performance indicators
Pages 20 and 21

Read more
Principal risks and uncertainties
Pages 27 to 31

Strategic priorities:

- Operate a safe and sustainable business
- Accelerate growth to be a top three player in our chosen markets
- Achieve top quartile performance and efficiency
- Provide sector-leading customer experience, for clients and for their customers
- Attract and retain highly motivated, high-performing teams
- Ensure the business is supported by investment in technology and back-office systems

Priorities for maintaining a sustainable business in 2016/17

1. Stakeholder engagement

Having successfully engaged with both customers and shareholders in evolving our strategy for sustainable business over the last few years, we have been able to align RBPO with the environmental, social and governance priorities of our key stakeholders. As the business grows and our working environment evolves, we will continue engaging with our external stakeholders, particularly shareholders and customers, over the coming year to maintain that alignment. Ongoing internal stakeholder dialogue will also ensure continued alignment with, and support for, the overall Group strategy.

2. Integrated business reporting

We will continue to embed our social and environmental indicators into day-to-day reporting, showing the value that this can contribute to the business and to those connected to our business. Some of this value is tangible in terms of reduced costs or cash. Other benefits include the goodwill that comes from delivering high-quality projects leading to excellent customer satisfaction and repeat business.

Progress	2020 target
34% reduction in the accident incidence rate (AIR) achieved from last year	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 recorded	10% additional social value created
27.4% relative reduction achieved	10% relative reduction from 2014 baseline
Construction waste increased to 9.4m³ 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 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 pages 66 to 77	Reward scheme for non-financial performance

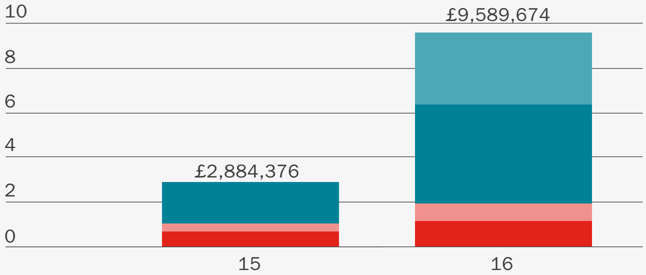
Resources and relationships continued

People and communities

Society and community

Our long-term target is to generate 10% additional social value, measured as a proportion of Group turnover. We launched the Kier social value calculator in 2015 to help us track progress and understand the economic benefit to communities and individuals created by Kier, for example through employment opportunities with us or our supply chain partners, by providing training or supporting good causes. In the year ended June 2016 through such activities, we positively impacted on nearly 80,000 lives, gave over 270,000 hours of employee time and created £9.6m of social and community value.

Community and social value (£m)



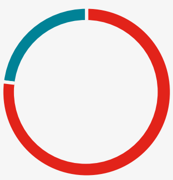
Cash donated and spent ■ Value of community hours ■ Value of employment & skills hours ■ Social value generated

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 provide further commentary on diversity, growth and risk within the Chief Executive's strategic review on page 9, risk management on page 28 and Governance in action on page 47.

Diversity[1]

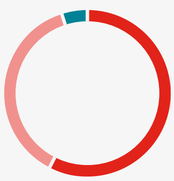
- Male – 77%
- Female – 23%



	Male	Female
All employees	14,564	4,328
	77%	23%
Senior management	309	38
	89%	11%
Directors	10	2
	83%	17%

Ethnicity of employees[1]

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



[1] Data excludes casual and overseas operative workforce data

Environment

Carbon

Our total or absolute emissions reduced by 15,551 tCO_2e or 10.7% year-on-year driven by reduced output at our surface coal mine, and the sale of the Fleet & Passenger Services business, and offset in part by increased emissions in the Residential division.

In relative terms emissions declined by 27.4% to 36.6 tCO_2e 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 emissions to revenue ratio historically. 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 improving energy efficiency and reducing fuel consumption.

Emission type:	2014 CO_2e tonnes	**2015 CO_2e tonnes**
Scope 1: operation of facilities	0	**0**
Scope 1 combustion	129,756	**112,651 -13.2%**
Total Scope 1 emissions	129,756	**112,651**
Scope 2: purchased energy	15,634	**17,189 +9.9%**
Scope 2 total emissions	15,634	**17,189**
Total emissions	145,390	**129,839**
Greenhouse gas emissions intensity ratio	50.4t/£m (-2% v 2013)	**36.6t/£m -27.4%**
Turnover (£m)	2,885	**3,552**

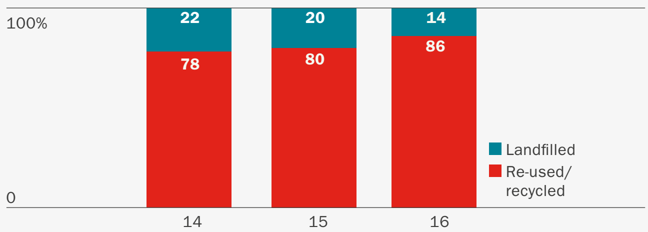
Supporting context

The period of greenhouse gas emissions reporting is the calendar year 2015 to mirror our reporting to the Carbon Disclosure Project. We report on emissions as required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. Scope 1 fugitive emissions are excluded. We do not account for any share of principal joint ventures or operations unless in majority financial control. Our dataset, on which our emissions/£ are based, represents 92% of Kier's operations by turnover. Our methodology has been based on the principles of the Greenhouse Gas Protocol. Conversion factors are those published by the Department for Environment, Food and Rural Affairs in 2015. The emissions associated with our principal joint operations in the period where Kier procured energy/fuel was 12,850 tonnes CO_2e.

Waste

The amount of materials that Kier purchases is a direct cost to our business. A focus on reducing the amount of waste we generate will make our business more efficient as well as achieving economic and environmental benefits. This focus has helped us consistently reduce waste to landfill and increase re-use and recycling.

Construction material waste – diversion from landfill



This data is collated from a sample representing 37% of Kier Group by revenue.

Marketplace

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%.

CCS Awards	**7 Gold (1 joint venture award)** **12 Silver (2 joint venture awards)** **24 Bronze** **3 Most Considerate Sites (2 joint venture awards)**
76%	**Score in CCS equivalent to 38.2/50** **2015: 77% (38.3/50)** **2014: 75% (37.6/50)**

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.

Labour standards and human rights

In 2015 the UK Government published the Modern Slavery Act (MSA) which places a duty on companies to make a public statement on the steps to minimise the possibility that slavery or human trafficking is happening in their own business or in their supply chain. We believe that this risk can be effectively managed and are making a number of phased improvements to pre-qualification and audit processes for supply chain partners to make this process as robust as possible. Our revised Responsible Procurement and Anti-slavery and Human Trafficking policies have been published.

These policies form part of our overall approach to respecting human rights. We provide an independent and anonymous helpline where issues may be raised.

Emerging regulatory requirements such as the MSA can present new challenges or risks for the business.

Governance

Stakeholder engagement

In September 2015, Kier brought together a group of its institutional shareholders to review and comment on the RBPO strategy, with the objective of understanding the value investors place on non-financial issues. The three items identified as most material to their interests in these discussions were:

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

More information on our engagement with institutional shareholders may be found in our CR Report and on our website http://www.kier.co.uk

Business ethics

Business ethics was noted by our shareholders as being important in influencing their investment decisions. A strong ethical approach to running a business helps to limit the risks that businesses face from economic, social and environmental perspectives. Kier has published its new Code of Conduct. This brings together, under one banner, a number of revised policies and is supported by our company values.

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.

Risk and opportunities

Kier recognises that social and environmental issues are integral parts of our review of risks and opportunities. Our Vision 2020 strategy for growth directly reflects this with the core strategic priorities recognising risk-profiled non-financial matters as addressed on the following pages.

Code of Conduct

Kier's Code of Conduct sets out 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 foward-thinking.

Risk management

Strong risk management supports the delivery of our strategy

Introduction

The Board is responsible for the Group's systems of risk management and internal control and for ensuring that significant risks are identified and appropriately managed.

The Group recognises that consistent and effective risk management is vital to the delivery of its strategic priorities and has aligned its risk assessment and Vision 2020 progress tracking processes.

The Group has a well-established process and methodology for the identification, quantification, monitoring and management of the principal risks faced by the business.

The Group also has a clear focus on continually improving its risk management processes and internal control environment.

The Board has delegated the review of the effectiveness of the Group's risk management processes to the Risk Management and Audit Committee (the RMAC).

How the Group identifies and manages risk

A summary of how the Group identifies and manages risk is as follows:

Board

Strategic priorities – **The Board determines its strategic priorities**

Principal risks – **On an annual basis, the Board, in conjunction with the business, assesses the principal risks faced by the Group**

Risk management and internal control – **The Board is responsible for the Group's systems of risk management and internal control**

Risk Management and Audit Committee

The Board delegates responsibility for reviewing the effectiveness of the Group's systems of risk management and internal control to the Risk Management and Audit Committee

Risk Management and Audit Committee
- Responsible for overseeing the Group's systems of risk management and internal control
- Reviews the effectiveness of risk management processes, ensuring that appropriate action is taken to manage the principal risks

Group risk summary

A periodic consolidated analysis of the principal risks and the effectiveness of their mitigation is reviewed by the RMAC

Divisional management
- Responsible for systems of risk management and internal control within their division
- Provides support and challenge on their businesses' assessment of risk and the adequacy of mitigations

Group functions
- Act as subject matter experts on the principal risks and provide independent support and challenge on the assessment and management of risks

Divisional risk summary

A periodic consolidated analysis of the business risk registers is reviewed by divisional management

Principal risk summary

A periodic consolidated analysis of each principal risk as assessed within the business risk registers is reviewed by Group functions

Business unit management
- Responsible for systems of risk management and internal control within their business unit
- Maintain risk registers that include all principal risks identified by the Board and any further risks deemed significant by each business

Business risk register

Gross risk level

The pre-mitigation risk size considering the potential financial impact and the likelihood of occurring

Key mitigations

Key mitigations are documented and their effectiveness assessed

Net risk level

The post-mitigation risk size, taking into account the effectiveness of key mitigations

Remedial action

Where mitigation is not effective or the net risk level is still deemed to be too high, further action is agreed and implemented

Performance indicators

Performance against a number of measures is monitored. This provides an indication of how well risks are managed and is aligned to the Group's strategic priorities

Assurance activity – **Activity by various parties (including Internal Audit) that provides assurance as to the effectiveness of the risk management and internal control systems**

Principal risks and uncertainties

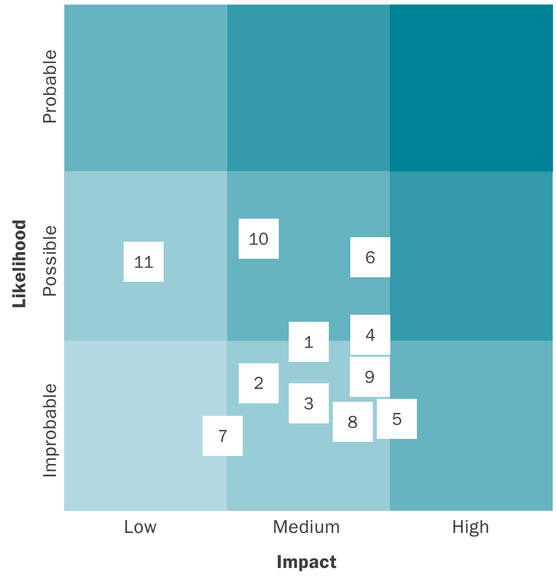
The nature of the industries and the business environment in which the Group operates means that its operations are subject to a number of inherent risks and uncertainties.

The Board has carefully considered the Group's principal risks and the controls in place to mitigate these risks. This year, the risk of a significant decline in the property market following the EU Referendum result has been included as a principal risk.

The assessment of these risks and controls is a key part of the ongoing management of the business. The Board recognises that consistent and effective risk management is vital to achieving its strategic priorities.

Each principal risk is described on the following pages, together with a summary of the mitigating actions taken. An indication of the strategic priorities most likely to be affected by the risk has also been included.

The heat map opposite sets out the Board's assessment of the probability and the potential impact of the Group's principal net risks (after mitigating actions).



1. Contract delivery
2. People
3. Systems
4. Tender pricing
5. Funding
6. The market
7. Change
8. Safety
9. Reputation
10. Property market
11. Compliance

The definitions of 'Probability' and 'Impact' are as follows:

Likelihood			Impact		
Improbable Has happened in the Group, but reasonably infrequently or not to a material extent.	**Possible** A relatively infrequent occurrence for the Group.	**Probable** A relatively frequent occurrence for the Group.	**Low** The exposure is well-understood. Cost of mitigation is relatively low or the risk is otherwise covered by risk transfer.	**Medium** The risk may be tolerated provided that the benefits are considered to outweigh the costs significantly. At worst, the impact upon reputation or brand is considered transient or localised.	**High** Threatens the viability of the Group; or contains a reasonable likelihood of danger to people; or would negatively affect the Group's reputation or brand to a reasonably material extent.

When assessing its risk appetite, Kier balances risk with opportunity. The following summarises the categories of mitigating actions with respect to the Group's principal risks:

Tolerate
Acknowledge the existence of a particular risk and take a considered decision to accept it. Approval from the appropriate level of management may be required.

Terminate
Take steps which are designed to eliminate the risk.

Control
Implement actions which are designed to minimise the probability or the impact of the risk.

Transfer
Re-assign accountability, responsibility and authority for the management of the risk to another stakeholder willing to accept the risk.

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Principal risks and uncertainties continued

Risk	Mitigation
1. Contract delivery The Group has several hundred live contracts at any point in time and the risks to which the Group is exposed are dependent on the nature of the work, the location, the duration and the legal form of the contract, amongst other matters. If these risks are not managed effectively, the Group may suffer contract losses, delays and potential reputational damage. **Relevant strategic priorities:**	The Group has an increasing focus on longer-term service contracts. Potential risks are mitigated, controlled and managed through the Group's operating structure and procedures. These include regular contract reviews of financial performance against budget as well as assessing end-life forecasts. Project risk registers are also reviewed. The procurement function manages sub-contractor and supplier relationships across contracts. Monthly reviews are supplemented by a quarterly review process, which operates across all divisions of the Group. There has been a specific focus during the year on upgrading the key financial control environment across the Group. These improvements have had a positive impact on identifying potentially under-performing contracts. A further development to mitigate this risk is a Group commercial training programme for all 'front line' staff, which is designed to ensure a consistent approach with respect to the management of contract risks across the Group.
2. People The Group depends on members of its senior management team and on a flexible, highly skilled, diverse and well-motivated workforce. If the Group does not succeed in attracting, developing and retaining skilled people, as well as understanding and embracing the diversity of those people, it may not be able to grow the business as anticipated. **Relevant strategic priorities:**	The Group monitors employee turnover closely. Pay and conditions are reviewed against the prevailing market to ensure that the Group remains competitive. The Group has put in place succession planning and employee development processes. These include an ongoing talent review process and the completion of succession planning analysis across all business units. Further mitigating actions to this risk include: • Conducting an employee engagement survey in 2016, with improvements noted in the engagement and enablement scores since the previous survey in 2014; • The completion of a refreshed leadership development programme for senior leaders. In addition, the leadership profiles and skills of the business leaders have been assessed to inform development programmes; and • A review of employee terms and conditions across all business units and the roll-out of a revised grading system.
3. Systems The efficient operation of the Group is increasingly dependent on the proper operation, performance, security and development of its information technology systems. The Group is maintaining legacy systems prior to implementing an ERP system. If implementation is unsuccessful, this may impact the Group's efficiency and profitability. **Relevant strategic priorities:**	The Group recognises that information technology plays a fundamental role in supporting its business. Information technology activity is managed by the Group's IT department in partnership with the business and according to agreed service levels. To mitigate system risks, significant investments are being made, subject to Board review and approval, such as the implementation of the new ERP system. There is a dedicated project team which deals with the design and implementation of the new ERP system. The project to establish a single finance shared services centre is being implemented at the same time. Key mitigations to the risk include: • Conducting an initial pilot for the ERP system across a small part of the Group so as to preserve business continuity; • Assessing the learning points from the pilot; • Conducting an independent assessment of the ERP system control environment; and • Providing independent project assurance on the delivery of the ERP system. The Group has introduced robust protection for cyber security threats and made a number of improvements to front-office systems during the year.

Strategic priorities:

Operate a safe and sustainable business

Accelerate growth to be a top three player in our chosen markets

Achieve top quartile performance and efficiency

Provide sector-leading customer experience, for clients and for their customers

Attract and retain highly motivated, high-performing teams

Ensure the business is supported by investment in technology and back-office systems

Risk	Mitigation
4. Tender pricing The work for which Kier tenders is often complex and long-term with significant associated risks. Tender assumptions may be inaccurate or the risks associated with the tender may not be fully understood. If tenders are under-priced, contract losses and potential reputational damage will result. If tenders are over-priced, order books may suffer. **Relevant strategic priorities:**	The Group's appetite for long-term, large, competitively-tendered construction contracts is limited. This is influenced by the desire to maintain quality of workload and to manage risk. Tenders for contracts are subject to a governance structure which includes Group-wide standing orders, with approval by the Chief Executive/Finance Director, other Executive Directors or divisional directors, depending upon the value and nature of the contract. Tenders with defined specific risks are reviewed by the Group's Risk Review Committee. Current mitigations include the Group-wide commercial training programme for all 'front line' staff, which is designed to ensure a consistent approach with respect to the management of contract risks across the Group.
5. Funding The Property and Residential divisions require finance to be provided by the Group and external sources. The Construction and Services divisions rely on Group bonding facilities. Without these, revenue and profit would reduce. **Relevant strategic priorities:**	A Group-wide initiative has increased the focus on cash forecasting and working capital management, with regular reviews with managing directors and finance directors, identification of cash generating opportunities and improved reporting on cash performance. Borrowing facilities have recently been renegotiated and extended. The Group has strong, long-term relationships with the providers of its bonding lines and has an in-house team which monitors headroom and advises on bond terms and conditions. The Group's Investment Committee is responsible for approving capital investment and optimising the allocation of capital. The Property division utilises a number of joint ventures to manage risk and enhance returns. Joint venture partners are carefully selected to mitigate operational risk within projects. By entering joint ventures, the Group can ensure that the Property division is not over-exposed to any one sector, geographical location or individual property. The Residential division works with housing associations and is seeking to develop joint venture relationships, in each case to mitigate its funding risks.
6. The market The Group's strategy depends on the level of expenditure within both the public and private sectors. Smaller markets will likely result in lower revenue for the Group. **Relevant strategic priorities:**	The Group has: • A wide regional network of offices across the UK, which is well integrated into local communities, the client base and the supply chain; • A high number of framework agreements and partnerships with Government, local authorities and the private sector; and • An integrated offer, with Property typically peaking earlier in an economic cycle and Services later, which provides a natural mitigation against the effects of a recession. The Group also carries out monthly and quarterly reviews of its workload and forecasts its overhead levels as a percentage of future work in order to maintain an appropriate ratio of overhead costs to revenue. There have been a number of market assessments of trading sensitivities during the year (particularly before and after the EU Referendum vote). The Group has undertaken contingency planning to consider and assess the associated market risk of the result of the EU Referendum vote.

Principal risks and uncertainties continued

Risk	Mitigation
7. Change The Group has recently grown significantly, principally through the acquisitions of May Gurney and Mouchel. This growth has resulted in a number of areas of change within the Group. Each of these areas needs careful management. Two of the most significant change programmes are the implementation of the ERP system and the establishment of the single finance shared services centre. Unless carefully managed, these programmes risk diverting management's attention away from core operations, causing a loss of focus on key market opportunities, a loss of control of the existing business and an adverse effect on the Group's operational and financial performance. **Relevant strategic priorities:** 	The Group's change programmes are tightly controlled by appropriate project governance. Significant progress has been made during the year with respect to the integration of the legacy Mouchel businesses. In particular, the operating models of the Kier and Mouchel businesses have, where appropriate, been integrated. There is a steering committee for both the ERP system and single finance shared services centre projects, together with independent project assurance. There have also been regular updates to the Board on progress throughout the year. During the year, the Board approved a new Code of Conduct, one of the aims of which is to promote a consistent set of behaviours to support the management of change throughout the Group as it continues to grow.
8. Safety The Group's activities are inherently complex and potentially hazardous and require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could result in injury to employees, sub-contractors or members of the public or damage to the environment. This could also expose the Group to significant potential liability, particularly in the light of new sentencing guidelines, and to reputational damage. **Relevant strategic priorities:** 	Detailed policies and procedures exist to mitigate such risks and are subject to review and monitoring by the operating businesses and SHE specialists. Each business has a director who is responsible for co-ordinating health and safety activities. The SHE audit programme identifies common areas of non-compliance across the Group, helping to drive improvements. Compliance is monitored in a number of ways including audit, leadership tours and inspections. The Group's behavioural change programme is designed to develop behaviours at supervisor and workforce level, while the Visible Leadership Programme is encouraging engagement by management with employees working on the Group's site.

Strategic priorities:

- Operate a safe and sustainable business
- Accelerate growth to be a top three player in our chosen markets
- Achieve top quartile performance and efficiency
- Provide sector-leading customer experience, for clients and for their customers
- Attract and retain highly motivated, high-performing teams
- Ensure the business is supported by investment in technology and back-office systems

Risk	Mitigation
9. Reputation The Group's ability to tender for new business and its relationship with customers, supply chain partners, employees and other stakeholders depends in large part on the good reputation that it has established and how it is perceived by others. The Group's growth targets may not be achieved if its reputation is adversely affected. **Relevant strategic priorities:**	With the increasing profile of the Group, the ability to monitor and measure the Group's reputation through client and customer feedback is key. The steps taken by the Group to maintain, protect and enhance its reputation include Group-wide customer satisfaction monitoring, maintaining relations with Government, effective leadership, community engagement and striving to operate a safe and sustainable business. In addition, the management of the Group's principal risks, as described in this section of the Annual Report, assists to maintain and protect its reputation.
10. Property market Following the EU Referendum vote, the Group has identified the potential for a significant decline in the UK property market as a potential risk to the Property and Residential divisions. If this decline occurred, then the financial performance of the Property and Residential divisions would likely be adversely affected. **Relevant strategic priorities:**	The risk mitigation strategies include work-in-progress monitoring, carrying a robust forward order book in the Residential division and minimising exposure to the cyclical market by purchasing schemes with an appropriate lifecycle. In addition, the Government has put in place further controls since the last market downturn, such as the Mortgage Credit Directive and the Help to Buy scheme, which have assisted to mitigate the risks associated with the residential market. On new developments, the business is careful to control speculative risk. The Kier Property division operates a largely non-speculative approach to investments. The Group has undertaken contingency planning to consider and assess the associated market risk of the result of the EU Referendum vote.
11. Compliance The Group is subject to a number of complex, demanding and evolving legal and regulatory requirements. A breach of laws or regulations could lead to disputes, investigations or legal proceedings, resulting in a disruption of business ranging from additional costs incurred on a project or in the overall management of the breach, to civil and/or criminal penalties as well as reputational damage. **Relevant strategic priorities:**	The Group monitors and responds to legal and regulatory developments and conducts risk assessments to assess material changes to applicable law and regulation. The Group mitigates the compliance risk in a number of ways, including requiring that all of its subsidiaries, employees, suppliers and sub-contractors comply with applicable laws and regulations, updating its policies to ensure that it complies with changes in legislation and regulation and providing training on relevant issues. The Group operates and encourages the use of a whistleblowing helpline, enabling employees to raise concerns. Examples of current or future changes in law and regulation which are considered as likely to be relevant to the Group include: • The Modern Slavery Act 2015: a working group was established during the year to address the requirements of the legislation (please see further details on page 25); • COP21: our CR Leadership Group is taking steps to ensure compliance; and • General Data Protection Regulation: steps are being considered to ensure compliance with the regulations, which come into force in 2018.

Related information:

Read more
Viability statement
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Divisional review: Property
The division provides property development and structured finance

Revenue[1]	**Underlying operating profit**[2]
£176m	**£21.4m**
(2015: £126m)	(2015: £22.7m)
ROCE[3]	**Average capital**[3]
£23%	**£(94)m**
(2015: 27%)	(2015: £(83)m)

- **Consistent performance delivering strong returns**
- **23% ROCE on increasing average capital of £94m**
- **Development pipeline of more than £1bn**

Revenue[1] was £176m (2015: £126m), up 40% generating an underlying operating profit[2] of £21.4m (2015: £22.7m) and reflecting the usual second half timing of transactions and a return to more normalised levels as it continued its successful investment strategy. This result was achieved with average capital invested[3] of £94m with a peak at £129m in the developments business, through continued support of co-investors and funders and utilising the Group's cash flow. The division, with over 80% of its activity taking place outside of London, achieved a ROCE of 23%, well ahead of our 15% target and continues to have a healthy development pipeline of opportunities in excess of £1bn.

The Property division has a diversified national portfolio of multi-sector, high-quality projects which continues to receive investment support from co-investors and funders. It also continues to offer its specialist skills as part of the Group's integrated offer to public sector clients who are seeking to maximise the return from their property assets. By way of example, the Penda Property Strategic Partnership with Staffordshire County Council and the Police and Crime Commissioner for Staffordshire, signed in June 2015, has commenced the provision of a total facilities management solution to over 30 occupied police properties, including the county headquarters.

The development business concentrates predominantly on non-speculative opportunities where elements of the schemes are pre-let and forward sold or developed in joint venture, thereby reducing the associated risk and demands on the Group's capital.

In the industrial sector, the Trade City Bracknell scheme was sold in June 2016 and future opportunities in Oxford and Thurrock progressed with strong pre-let interest. Our presence in the sector has been expanded with the launch of the Logistics City brand with units up to 150,000 sq ft with sites at Normanton, Thurrock, Frimley, Basingstoke and Winsford.

In the office development sector, the 100,000 sq ft office in Sovereign Square, Leeds, built by the Construction division, was forward sold to Leeds City Council with completion due in October this year. Speculative investment in the London market is very limited, with the development of the 60,000 sq ft office in Hammersmith in joint venture with Investec ongoing. 58 Victoria Embankment, the 46,500 sq ft office development in which Kier held a 16% equity stake, was sold during the year.

In the retail and mixed use sector, the £30m retail and leisure development at Catterick was sold in May 2016 for £30.5m, the construction of a forward funded 68,000 sq ft leisure scheme in Walsall was completed in December 2015 with strong pre-let interest on phase 2, a 45,000 sq ft pre-let retail scheme in Wakefield was forward sold with construction commencing in May 2016 and two further opportunities that have been secured in Kingswood in Hull and Durham for retail schemes.

In the hotel sector, construction was completed in December 2015 on the forward-sold 222 bed hotel for Motel One in Highbridge.

Following the award of the masterplan in December 2013, the £240m Watford Health Campus project continued the construction of the infrastructure works with completion due in October 2016. The scheme will deliver 375,000 sq ft of mixed use development to the area, in addition to 680 new homes.

In August 2015, a 264-room student accommodation scheme in Glasgow was completed ready for the 2015/16 academic year with lettings ahead of forecast in the first year and the scheme 100% let for the second year. Further opportunities for student accommodation projects were secured in Newcastle and Southampton. In September 2015 in the education sector, financial close was reached to design, build, finance and maintain the £25m Ayr Academy in South Ayrshire being delivered via Hub South West.

Solum Regeneration, our joint venture with Network Rail, has in excess of £500m of mixed use schemes in its portfolio with regeneration schemes underway including Guildford, Haywards Heath, Redhill, Twickenham and Walthamstow.

The Group's investment portfolio holds eight schemes, two at preferred bidder stage, three in construction and three in operation. The committed equity investment stands at £29.5m (2015: £22.1m) of which £14.7m (2015: £13.1m) has been invested to date. The directors' valuation is £41m (2015: £36m).

Property outlook

The market outside of London remains strong and the division will maintain its strategy to focus on predominantly regional, non-speculative and pre-let opportunities. While there has been some investor and occupier caution following the EU Referendum vote, this has not had a noticeable impact on the performance of the division to date, which has a development pipeline in excess of £1bn. The Group's strong cash flow this year allows for additional investment into schemes during 2017 and the current market may present some buying opportunities. These investments, which will see a Group capital investment peak at £175m in the year ahead, will follow our strict capital and return disciplines. However, a select few with good rental yields may be held for longer periods, prior to any development activity.

1 Group and share of joint ventures.
2 Stated before non-underlying items – see notes 2 and 4 to the consolidated financial statements. Reported Property operating profit was £16.0m (2015: £22.6m).
3 Equates to average net debt.

Focused principally on non-speculative developments

Kier Property undertakes investment, development and asset management across a broad spectrum of property assets for the private and public sectors.

We are committed to helping improve the overall quality of the built environment by reinvesting in available land and buildings, turning them into national assets with a future

We have delivered over 1.2m sq ft of commercial space during the last financial year

Kier Property has developed 5m sq ft of industrial space in the past four years

Divisional review: Residential

Kier Residential, branded Kier Living, includes mixed tenure affordable housing and private house building

Revenue
£353m
(2015: £257m)

Underlying operating profit[1]
£20.3m
(2015: £11.2m)

Average capital[2]
£(231)m
(2015: £(263)m)

- **Revenue was up 37% to £353m**
- **Healthy mixed tenure pipeline of >£600m, >70% secured for FY17**
- **Launch of the New Communities Partnership (NCP) joint venture**
- **Completions increased to 2,139 units including c750 units from private sale completions**

The Residential division's activities are focused on both private house sales and working with local authorities, registered providers and other clients to build mixed tenure affordable housing. This blended approach to house building provides resilience to market fluctuations and all of the division's activity is outside of London. The regional profile of the business provides a stable environment for mixed tenure affordable house building with demand continuing to exceed supply.

Revenues increased to £353m (2015: £257m) with the total number of unit completions increasing to 2,139 units, generating an increase in underlying operating margin[1] to 5.8%. Underlying operating profit[1] of £20.3m (2015: £11.2m), up 81%, was achieved as our focus increased on mixed tenure housing. The rebalancing of the legacy Kier land bank continues. The cash performance of the business was excellent.

Since the EU Referendum vote, sales and visitor levels have remained consistent with historical seasonal trends and the sales rate per active site pre and post the vote has remained consistent. Notwithstanding, new investment in land is being tightly managed and monitored to align to the pace of sales.

Mixed tenure

Turnover in the mixed tenure business of £187m was up 63% on the previous year with a marginal reduction in average invested capital to £39m. This reflected the low working capital requirements of the mixed tenure model and the shift in the year to a higher contracting output which is also reflected in the reduced operating margin. The mixed tenure business achieved approximately 1,400 completions (2015: 1,424) in the year and the business has a pipeline of more than £600m, and is more than 70% secured for FY17.

In May, the NCP joint venture, in conjunction with Cheyne Capital and The Housing Growth Partnership, a joint venture between Lloyds Bank and the Homes and Communities Agency, was launched.

The NCP joint venture will invest £1bn and build up to 10,000 new homes throughout the UK. Interest from local authorities in the NCP has been high with over 35 sites currently being evaluated with 11 local authorities across the country.

Following the successful integration of the Southdale business, the business now has coverage across the north of England and the Midlands. During the year, the business secured places on all available significant frameworks covering the north of England including Torus, Innovation Chain North West, Thirteen Housing Group, Cutting Edge, Scape, YORbuild and Places for People.

The rent cuts announced in the Comprehensive Spending Review in Autumn 2015 saw a number of clients delay affordable housing development schemes as organisations reshaped their development plans to adapt to new income forecasts. To align to this new landscape, the division has refocused its capability to deliver new, innovative mixed tenure joint ventures. The first of these, Northern Ventures, in collaboration with Together Housing and Thirteen Housing Group, aims to deliver 500 units per annum in schemes across the north of England.

Private

The year saw an uplift in private sale completions on Kier owned land with c750 completions (2015: 706). The land bank mix continues to improve with approximately 50% of completions on land bought before 2008 and the remainder on newer land. The business continues to rationalise its land bank and re-invest in mixed tenure opportunities to return capital to the Group. The land bank has reduced to 3,279 speculative units (2015: 3,413) and sales were completed at a rate of 0.6 units per trading site per week. Help to Buy has underpinned new home sales and accounted for approximately half of private sales. Average sales prices were at £230k and the business is currently more than 50% forward sold for FY2017.

Residential outlook

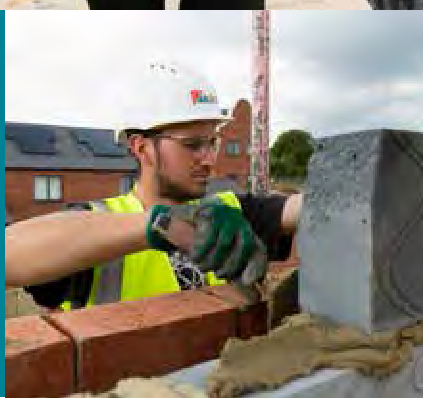
The division continues to address the UK shortage of housing with particular focus on mixed tenure housing. The stimulus provided by Government initiatives such as Help to Buy, coupled with the availability of mortgages and the recent reduction in interest rates, should see the business continue to grow and improve its ROCE year-on-year. With a mixed tenure pipeline of more than £600m, we have good revenue visibility in the business for the next four years and, when combined with our experience of housing maintenance, we are well positioned to assist our clients to develop their portfolios for both private and affordable housing purposes and to deliver the maintenance requirements thereafter. In the mixed tenure business, the significant imbalance between supply and demand for affordable housing in the UK requires a long-term solution. We are working with local authorities, registered providers and central government to address the issue through a variety of financing options.

1 Stated before non-underlying items – see note 2 and 4 to the consolidated financial statements. Reported Residential operating profit was £19.5m (2015: £11.2m).
2 Equates to average net debt.

By 2020 our Residential division, Kier Living, will build more than 4,000 homes every year

Kier is addressing the housing shortage with a focus on mixed tenure housing

Kier Living delivers over 2m sq ft of residential space every year, 50% of which is either affordable or starter homes



Two Kier Living apprentices, Daniel Northgroves and David Foston who recently received a scholarship from the Construction Industry Training Board.

Divisional review: Construction

The Construction division comprises the UK regional building, UK infrastructure and international businesses

Revenue[1]	Underlying operating profit[2]
£2,025m	**£47.4m**
(2015[3]: £1,732m)	(2015[3]: £38.4m)
Underlying operating margin[2]	**Order book**
2.3%	**£3.4bn**
(2015[3]: 2.2%)	(2015[3]: £3.5bn)

- **Record revenue of £2bn**
- **Increased underlying operating margin of 2.3%**
- **Order book solid at £3.4bn**

The Construction division experienced a record year of growth, with revenue[1] up 17% to £2.0bn (2015[3]: £1.7bn). The division benefited from the incorporation of Mouchel Consulting as well as strong growth in the regional building business delivering a 10% increase in like-for-like volumes. This resulted in an underlying operating profit[2] increase of 23% to £47.4m (2015[3]: £38.4m). Underlying operating margins[2] increased to 2.3% (2015[3]: 2.2%) and the working capital position has improved. The current order book of £3.4bn for secured and probable work, excluding framework wins, includes more than 90% of forecast revenue for the 2017 financial year, on increasing volumes.

UK regional building

During the year, the split of work across the business was broadly 50/50 private and public sector, reflecting a balanced portfolio and consistent with prior years. Buoyant sectors included education, student accommodation, aviation, transport, defence and bio-tech, the latter particularly within the Cambridge region.

Collaborative working on strategic frameworks continues to underpin the day-to-day activity of the business. Frameworks provide a steady stream of opportunities and long-term relationships with clients with an addressable spend of over £20bn over the next five years.

In September 2015, Kier won the four-year Scape Minor Works framework for the second time, giving Kier businesses, including our regional building, housing maintenance and facilities management activities, the unique opportunity to deliver up to £1.5bn of public sector projects throughout the UK, each valued at up to £4m over a four-year period. At the end of the financial year, nine months into the framework, Scape Minor Works awards totalled at £60m, with a pipeline of a further £160m of projects in pre-construction. Through this framework, the Group is working for a broad range of public sector clients.

Education awards continue to be secured under the Education Funding Agency framework and in the year, we achieved selected panel member status on a further five schemes worth £156m.

In August 2016, Kier was named as one of the six principal supply chain partners on the four-year, £4bn Department of Health ProCure22 framework, the new framework replacing ProCure21+, building further on the Group's leading position in the health sector.

New framework successes during the year included the South West Wales Regional Contractors framework, valued at £850m which is used by 27 local authorities and public bodies in Wales. Kier was successful on all four Lots tendered, covering contracts from £3.5m to over £15m. In addition, a position on the YORbuild2 Construction framework was awarded in February 2016, with a value of £2bn. This framework can be accessed by local authorities, public sector bodies and third sector organisations across the Yorkshire and Humber region, Sheffield Local Enterprise Partnership (LEP) area, North East England and Lincolnshire. After the year end, Kier was selected as one of five framework partners appointed to deliver construction works worth up to £750m at Gatwick Airport on each of the Lots tendered covering low and medium complexity building works and medium complexity civil works over the next five years. In addition, Kier has been selected for the £500m University of Cambridge framework and secured a place on the £240m Essex Construction framework for projects over £2m.

We have continued to build on our existing expertise in the education, health, commercial and defence sectors and we have also penetrated a number of new sectors covering aviation, logistics and distribution, bio-tech and science.

The Construction division has continued to work with the Property division on delivering developments including 58 Victoria Embankment, London, Sovereign Street, Leeds, a student accommodation development in Glasgow and Motel One in Newcastle.

Infrastructure

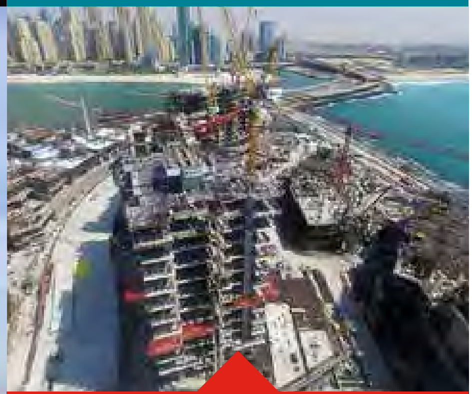
The infrastructure business operates across a number of sectors and across a broad range of project values from frameworks to larger-scale projects, such as Crossrail. Key sectors for the business are transportation, water and the nuclear and energy sectors.

In the transportation sector, Crossrail, the Mersey Gateway project and the Smart Motorways programme continue to make good progress. Kier's presence in capital programmes in the UK highways sector continues to grow, complementing Kier's highways maintenance operations. Key successes in the period include the award of a new £600m highways framework in the East of England, with Kier being one of six contractors appointed to the major works Lot.

1 Group and share of joint ventures. Continuing operations.
2 Continuing operations. Stated before non-underlying items – see notes 2 and 4 to the consolidated financial statements. Reported Construction operating profit from continuing operations was £15.9m (2015[3]: £37.5m).
3 Restated to reflect the re-allocation of Mouchel Consulting from the Services division to the Construction division.

Our geographical spread across Britain is based around our national network of regional offices

Kier Construction has the flexibility and expertise to build anything from a £250,000 extension to a £250m strategic asset



Internationally, our construction activities are focused on the Middle East

In the rail sector, CEK, a joint venture partnership with Carillion and Eiffage, established in June 2015, has pre-qualified for the maximum four of seven HS2 phase 2 civil engineering packages, each worth about £1bn. This further expands Kier's involvement in HS2, with CEK already having tendered for all three packages, each worth more than £200m.

In the nuclear sector, we are working at Aldermaston and Urenco and continuing our long track record of working in Sellafield. We welcome the UK Government approval on Hinkley Point C where we are currently working and look forward to deploying its proven capabilities further in the energy and nuclear sectors.

Mouchel Consulting
Following the announcement of the portfolio simplification, an evaluation of the strategic options for Mouchel Consulting, which continues to trade well, is underway.

International
The international business has secured over £100m of new work in the Middle East, mainly in Dubai. The low oil price is having an impact on the pipeline of opportunities in the region, albeit our ability to provide clients with access to export credit facilities supported by UK Export Finance (UKEF) is proving to be a key differentiator and has enabled high-quality work to be secured. An example of this is the £51m staff accommodation project awarded by Nshmi, a local developer, after year end which is being funded with the support of UKEF.

An £11m infrastructure contract was awarded by the same client at its impressive Town Square development in the emirate. Two further contracts were also secured for Meraas, an existing key customer; a £15m infrastructure project at Al Khawaneej in Dubai and the island-wide infrastructure works on Bluewaters island, worth £28m. The region continues to provide attractive opportunities for the Group in the build-up to Expo 2020. The two contracts in Hong Kong are nearing completion with discussions ongoing with the client and, as part of the portfolio simplification, operations in the Caribbean are winding down, including completion of a contract and the settlement of a small number of final accounts.

Construction outlook
The Construction division continues to perform strongly having secured more than £2bn of new contract awards in the last year and delivering an increased margin. With an order book of £3.4bn, more than 90% of forecast revenue for 2017 is secured. Margins and cash generation are expected to improve further as we maintain our prudent risk management process. The division's regional spread of projects and standing on key frameworks ensures that it is well positioned to take advantage of public and private sector opportunities that arise across the UK. In the short term, the regional building business will underpin the division's growth; however, given the political momentum and recognition that the UK's economic growth will be strengthened by improved transport systems, power generation and utilities networks, the scale of the UK infrastructure pipeline provides good visibility over the medium term.

Divisional review: Services

The Services division comprises strategic and local authority highways maintenance, utilities, housing maintenance, Kier Workplace Services and Environmental Services

Revenue[1]	Underlying operating profit[2]
£1,656m	£86.1m
(2015[3]: £1,236m)	(2015[3]: £57.3m)
Underlying operating margin[2]	**Order book**
5.2%	£5.3bn
(2015[3]: 4.6%)	(2015[3]: £5.8bn)

- **Significant revenue growth to £1.7bn**
- **Strong and increased underlying operating margin of 5.2%**
- **Expanded highways capability following the integration of Mouchel**
- **Long-term order book of c£5.3bn with additional potential extensions of more than £2.7bn**

Services revenue[1] was up 34% to £1.7bn (2015[3]: £1.2bn), reflecting a robust organic performance by the business and a full year's contribution from the Mouchel businesses. Underlying operating profit[2] was £86.1m (2015[3]: £57.3m), up 50%. Underlying operating margins improved to 5.2%, reflecting the organic performance of the division and the newly acquired businesses.

The integration of Mouchel has delivered the anticipated cost savings of £4m in FY16. Furthermore, additional savings of £5m are anticipated in FY17, increasing the forecast annual cost synergies from the Mouchel acquisition to a total of £15m in FY17. To achieve the higher level of savings, integration costs have increased by £36m to £50m, with these additional costs having been incurred during FY16. This has included a 4% reduction in overall Group headcount with in excess of 850 roles being removed, mainly through the amalgamation of business units and the consolidation of the managerial and support roles. The Mouchel acquisition remains on track to deliver a return on capital in excess of our target of 15% in FY17.

The order book at 30 June 2016 of £5.3bn (2015[3]: £5.8bn) has reduced by £0.5bn, as expected, reflecting the unwinding of the longer-term contracts typical of the utilities and highways sectors which result in a reduction in the order book each year of c.£600m. More than 90% of targeted revenue for 2017 is secured, moreover, the order book does not include potential contract extensions, which, if included, would add more than £2.7bn.

Infrastructure Services – Highways maintenance
Following the acquisition of Mouchel, the integration of the highways management teams has been completed, creating one team that oversees the combined highways maintenance activity for the Group. The highways businesses performed well in the year. In Strategic Highways, the five-year Road Investment Strategy funding remains unchanged. The formal tender process for Highways England Areas 1 and 13 and a number of other Areas, where Kier is not currently the maintenance provider, is underway and these provide further opportunity for the Group specifically where Highways England has lifted the cap on the number of Areas that can be awarded to one company from four to five. In March a £50m design services contract was awarded by Highways England for Area 7, covering the East Midlands.

Demonstrating a leading commitment to collaborative working, Kier Highways has pioneered an alliance approach with the British Standards Institution for its supply chain partners. In May 2016, the Area 3 team and its suppliers were the first to become certified to BS 11000 Collaborative Business Relationships as part of a new alliance approach. It is anticipated that this innovative model will be adopted by other contractors. In the local authorities market where the Group has five contracts plus its operations in London, budget challenges continue for our clients and we are working with clients on new approaches to service provision. This has been well received by clients, including Surrey County Council which earlier this year extended the Group's relationship with the provision of a four-year £160m extension to the existing Surrey Highways contract. The current local authority highways bidding pipeline has a value of over £2bn despite the recent quieter bidding cycle.

In Australia, where we operate seven contracts as part of the DownerMouchel joint venture, expenditure on infrastructure capital spend continues. Bid opportunities have been developed in Western Australia and New South Wales and opportunities in the New Zealand market continue to be evaluated.

Infrastructure Services – Utilities
Following the completion of the AMP6 bidding process and the successful mobilisation of the Thames Water and Anglian Water contracts, work is focusing on the cultural transformation of the alliances to deliver more efficiently. During the year, a £105m five-year extension has been awarded on the Scottish Water contract for the provision of repair and maintenance services for the waste water network across Scotland. In addition, two extensions for existing contracts with South West Water and Bournemouth Water are in advanced discussion. After the year end, two new contracts were won; a three-year £50m National Grid Infrastructure Protection Works framework security contract, in joint venture with Siemens, and a £40m trunk mains utility contract for Affinity Water, a new client win.

1 Group and share of joint ventures.
2 Stated before non-underlying items – see notes 2 and 4 to the consolidated financial statements. Reported Services operating profit from £5.6m (2015[3]: £38.6m).
3 Restated to reflect the re-allocation of Mouchel Consulting from the Services division to the Construction division.

Kier preserves over 2,200 miles of canals and waterways in England and Wales, undertakes works in 350,000 homes every year, and carries out 750,000 repairs – one every 45 seconds.

By collaborating with the Group's development and construction teams, we can collectively manage every aspect of our clients' requirements

Kier Highways is the UK's largest maintainer of road tunnels in the UK, including the Blackwall Tunnel

Property Services – Housing maintenance
The business continues to be impacted by the social rent reduction announced in last year's Budget. This has impacted on our clients' finances and their long-term planning and, consequently, resulted in a reduced level of new awards.

Our strong partnership with Genesis continues and discussions are ongoing about extending the scope of services to include compliance works. With the anticipated merger of registered providers and the increasing need for social housing, we are starting to see new opportunities for the provision of end-to-end services which our Residential and Services divisions can provide with a combined new build and maintenance offering.

Changes of approach and greater efficiencies with our clients are necessary to address reducing client budgets. In addition to our breadth of services, we have developed and are implementing an improved front-end IT system to better and more efficiently interact with our clients' own systems and enable us to drive operational efficiencies and flexibility.

Property Services – Kier Workplace Services
The new division, incorporating facilities management, property management and business processing, was launched on 1 July 2016. The business provides end-to-end workplace solutions for both public and private sector clients, designed to address a growing market seeking the full range of hard and soft facilities management, asset management and wider business services.

During the year, facilities management contracts were awarded by a number of organisations in the heritage and arts sector, in local government and other areas of the public sector such as health and blue light. Key contract awards totalling c£100m include a £32m contract to deliver repairs and estate management to Southwark Council, a mechanical and electrical services contract with the Royal Shakespeare Company, a £12m contract to provide mechanical and electrical services to the six Imperial War Museums (IWM) as well as a £30m repeat award by Wiltshire County Council.

Other
The operational performance of the Environmental Services business remains on track, albeit the decline in the commodity prices has resulted, as announced on 4 July, in a provision of £35m on losses incurred by the Environmental Services business which will be taken in FY16, providing for all future cash outflows on two environmental contracts of eight and ten years' remaining duration. Additionally, in light of the recyclate pricing, the carrying value of our investment in Biogen, our renewable energy joint venture in which the Group holds a 50% share, has been reviewed and resulted in an impairment cost to Kier of £5m in FY16.

Services outlook
The Services division, which accounts for 50% of the Group's profit, provides essential, day-to-day, routine services to clients and communities. Many of these budgets are ring-fenced which provides resilience to the Group. The integration of the Mouchel business has been completed and the Services division is benefiting from the complementary capabilities now within the Group, something that our clients are increasingly interested in. The Services order book of £5.3bn provides good long-term visibility of our workload with potential extensions adding a further £2.7bn, and is more than 90% secured for 2017.

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Financial review

The Group has recorded a robust underlying performance

Bev Dew
Finance Director

Earnings per share[2]
106.7p
(2015: 96.0p)

Reduction in net pension deficit
£72m
(2015: £123m)

Net debt significantly reduced
£99m
(2015: £141m)

The results reflect a robust operating result for the Group in a year of significant change and refocusing. The costs arising from the activities associated with our portfolio simplification and the acquisition of the Mouchel Group have resulted in a statutory loss before tax of £15m (2015: Profit of £39m) being reported.

Accounting policies and segmental reporting
The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRSs). There have been no significant changes to the accounting policies adopted by the Group during the year ended 30 June 2016.

Subsidiary statutory accounts are to be prepared under revised UK GAAP and the Kier Group plc entity only financial statements have been prepared in accordance with the changes outlined in FRS101.

Within the Group segmental reporting disclosure, the activities of Mouchel Consulting have been reclassified from the Services division to the Construction division and the comparatives have been restated as a result.

Revenue[1]
£4.2bn

16	£4.2bn
15	£3.4bn
14	£2.9bn
13	£1.9bn
12	£2.0bn

1 Group and share of joint ventures. Continuing operations.
2 Stated before non-underlying items; see note 4 to the consolidated financial statements.
3 Restated to reflect the re-allocation of Mouchel Consulting from the Services division to the Construction division.

Underlying financial performance
The Group has recorded a robust underlying performance with record turnover, underlying operating profit and underlying EPS. The acquisition of Mouchel in June 2015 has been the catalyst for these results supplemented by organic revenue growth of 8% (2015: 12%) across the Group.

Revenue, including share of joint ventures, has increased 26% in the period with all divisions reporting material volume increases.

Revenue from the Group's Property division of £176m (2015: £126m) represented a 40% increase on the prior year and average capital invested was £94m (2015: £83m). The Group continues to drive investment in a capital efficient manner using joint venture structures and asset finance where appropriate. The average investment in joint ventures during the year was £106.1m (2015: £66.6m). As in prior years, the Group remains a predominantly non-speculative investor in development assets concentrated in the commercial, retail and business park sectors. 89% (2015: 59%) of the Property division results were generated outside of London reflecting the increasingly diverse asset base.

The Residential division, which includes income from the provision of private and social housing units and contracting turnover from residential projects, again saw material growth in the year with revenues increasing 37% to £353m (2015: £257m). As in prior periods, this volume was second half weighted with 55% of units (2015: 67%) being completed in the second half.

Financial performance

Continuing operations		2016 Year ended 30 June	2015 Year ended 30 June	Change %
Revenue[1]		**£4.2bn**	£3.4bn	+26
Group revenue		**£4.1bn**	£3.3bn	+26
Operating profit	– Underlying[2]	**£149.6m**	£103.7m	+44
	– Reported	**£11.7m**	£60.9m	-81
Profit/(loss) before tax	– Underlying[2]	**£124.9m**	£85.9m	+45
	– Reported	**£(15.4)m**	£39.5m	
Earnings/(losses) per share	– Underlying[2]	**106.7p**	96.0p	+11
	– Reported (Basic)	**(13.2)p**	40.2p	
Dividend per share		**64.5p**	55.2p	+17

The Construction division consists of the UK regional building business, UK infrastructure and international construction. In addition the performance of the Mouchel Consulting business is reported in this segment. Overall turnover of £2,025m (2015[3]: £1,732m) represents 17% growth in the period, of which 10% is organic excluding the impact of the Mouchel acquisition. The organic growth was driven by the continuing strong performance of the UK regional building business.

The Services division was the primary beneficiary of the acquisition of the Mouchel business and turnover of £1,656m (2015[3]: £1,236m) represents a 34% increase on the prior year. Excluding the impact of the acquisition, volumes have decreased by 4% on an organic basis, primarily as a result of a lower level of local authority highways bidding in 2015 reflecting the longer-term nature of these contracts. Bidding activity in local authority highways has increased in 2016 and we anticipate this continuing in 2017 as contracts reach their natural expiration and come to market. The consolidated highways maintenance business is now the largest single component of this segment and includes £108m of turnover from the Australian operations.

Underlying operating profit, including share of joint venture income, of £149.6m (2015: £103.7m) represents a 44% increase from the prior year. This result includes contributions from the acquired Mouchel business which are in line with expectations on acquisition and include the recurring benefits of synergies following the post-acquisition restructuring which has now been completed.

Operating profit for the Property division of £21.4m (2015: £22.7m) is a 6% decline from the prior period reflecting the return to more normalised levels of profitability in this division. The overall ROCE for the period of 23% (2015: 27%) continues to exceed the Group 15% hurdle rate. Operating profits are stated after the incorporation of £2.4m (2015: £1.4m) of interest and tax charges included within the trading result of joint ventures.

Within the Residential division, the material increase in revenue has been accompanied by an increase in margin to 5.8% (2015: 4.4%). This volume increase and improvement in operational efficiency has driven an 81% increase in operating profit from £11.2m in the prior year to £20.3m for 2016. This blended margin reflects the ongoing improvement in the quality of the owned land bank and an increased contribution from the mixed tenure business.

The Construction division contributed £47.4m (2015[3]: £38.4m) to operating profit, an increase of 23% from the prior year. Operating margins for the year of 2.3% (2015[3]: 2.2%) reflect the robust ongoing delivery within the UK regional building business supplemented by moderate growth in the international and UK infrastructure businesses.

The Services division delivered £86.1m (2015[3]: £57.3m) of operating profit, an increase of 50% in the year supported by a strong performance in the Strategic Highways business. Overall operating margins of 5.2% (2015[3]: 4.6%) represent a robust and sustainable outcome and are recorded after taking into account underlying operating losses in the Environmental Services business of £5.3m (2015: £4.0m) driven by falling commodity prices.

Financial review continued

Corporate costs

	2016 £m	2015 £m
Unrecovered overhead	**(22.3)**	(19.1)
IAS19 pension charge	**(3.3)**	(6.8)
	(25.6)	(25.9)

Underlying net finance costs[1] – continuing operations

	2016 £m	2015 £m
Net interest receivable on operating cash balances	**–**	0.7
Interest payable and fees on committed borrowings	**(17.7)**	(13.7)
Interest payable on finance leases	**(1.4)**	(2.6)
Net interest on new defined benefit obligations	**(5.6)**	(2.2)
	(24.7)	(17.8)

Total corporate costs of £25.6m (2015: £25.9m) reflect the continuing investment in the Group support structure. The IAS19 pension administration charge has reduced in the year to £3.3m (2015: £6.8m) following the closure of the Group's pension schemes to future accrual in the prior financial year. With the ongoing implementation of its Enterprise Resource Planning (ERP) system in 2016, the Group will be consolidating its financial shared services function in Manchester in 2017.

The net underlying finance costs of £24.7m (2015: £17.8m) incorporate the additional working capital requirements and associated banking facilities acquired with the Mouchel transaction in June 2015. In addition, a full year's interest charge has been incurred on the US Private Placement debt facilities taken out in November 2014. Interest on finance leases of £1.4m (2015: £2.6m) reduced in the year following the disposal of the Fleet & Passenger Services business (F&PS) in July 2015. Financing charges associated with the Group's pension schemes have increased to £5.6m (2015: £2.2m) following the incorporation of the Mouchel Group's pension schemes into the Group's balance sheet.

The tax charge for the period of £22.5m (2015: £16.9m) represents an effective corporation tax rate of 18.0% (2015: 19.7%). This is a discount of 2.0% (2015: 1.1%) on the basic rate of UK corporation tax. This discount is driven by the reappraisal of prior period balances and accounting for joint venture disposals in the Property division where tax is accounted for within operating profit of the Group.

Underlying EPS of 106.7 pence represents an 11% increase on the prior period (2015: 96.0 pence). Overall shares in issue of 96.1m have increased from 95.2m in 2015 following the additional shares issued under scrip dividends (0.4m) and share ownership schemes (0.5m).

Non-underlying items
The Group has recognised a net charge (pre-taxation) of £151.3m in respect of non-underlying items in the year. These are summarised below:

- **Transaction, integration and restructuring costs following the acquisition of Mouchel.** In the 2016 financial year, the Group has materially restructured both the acquired Mouchel business and the legacy Kier operations, primarily within the Services division. This has included the redundancy costs of in excess of 850 people across the business, mainly through the amalgamation of individual business units and the consolidation of managerial and support roles. Total costs associated were £49.9m which included £35m severance costs.
- **Impact of commodity prices on waste collection contracts.** The Group operates two waste contracts with recyclate income clauses. These contracts conclude in 2023 and 2025. Recyclate income is highly correlated to oil prices which have fallen 40% since the second half of 2014. The Group has recognised provisions associated with these contracts of £35.6m which assumes an ongoing income equivalent average oil price of $60 per barrel for the remainder of the contract life.
- **Asset impairment.** A £5m non-cash impairment has been recorded in respect of the Group's Biogen joint venture investment where forecast commodity and energy prices have impacted anticipated future revenues.
- **Closure of Caribbean operations.** Following a strategic review of the international operations in 2016 including, but not limited to, future pipeline opportunities, operational risks and selective bidding, the Board concluded that it was appropriate to close the Group's Caribbean operations. A £23.1m provision has been recorded in relation to this and associated contract final account positions.
- **Construction Workers Compensation Scheme.** Under the provisions of an industry settlement agreement, the Group has recognised an additional £4.5m provision for legal fees and compensation.

1 Stated before non-underlying items; see note 4 to the consolidated financial statements.

- **Impairment of mining operations.** The Group recognised an additional £5m provision after tax in respect of the Scottish coal mining operations in the year, reflecting the revised disposal timetable and consequential additional remediation costs incurred.
- **Sale of F&PS business.** The Group has reported an exceptional gain of £1.7m (2015: charge of £3.4m) following the disposal of the F&PS business which concluded in July 2015.
- **Amortisation of intangible contract rights and discount unwind.** During the year the Group has recognised an amortisation charge of £21.5m (2015: £11.2m) and an interest charge in respect of discount unwind of £2.4m (2015: £3.6m).

Other non-underlying items

	2016 £m	2015 £m
Transaction, integration and restructuring costs following the acquisition of Mouchel	**(49.9)**	(21.9)
Provision for commodity prices relating to Environmental Services recyclate costs	**(35.6)**	–
Provision relating to Biogen investment	**(5.0)**	–
Provision for closure of Caribbean operations	**(23.1)**	–
Construction Workers Compensation Scheme costs	**(4.5)**	–
Gains/(costs) relating to the disposal of Fleet & Passenger Services	**1.7**	(3.4)
Costs associated with cessation of the Kier Group final salary pension scheme	**–**	(6.3)
Total non-underlying items relating to continuing operations	**(116.4)**	(31.6)
Discontinued – UK mining (net of £6m tax)	**(5.0)**	(21.8)
Total non-underlying items	**(121.4)**	(53.4)

The Group announced a strategic review of the Mouchel Consulting business in July 2016. This review could encompass the sale of the operations. The business contributed operating profit of £8m in the current financial year.

Cash performance
The overall year-end net debt position of the Group improved materially in the year to £99m (2015: £141m) at 30 June, a net cash inflow of £42m (2015: £18m outflow).

Comparing the Group's underlying operating profit to operating cash flows (including joint ventures) before movements in working capital, this represents a 121% (2015: 106%) operating cash conversion.

Strong working capital management during the year has driven a material improvement in cash flows and resulted in a cash inflow of £55m (2015: £58m inflow). The business has seen robust working capital performance across all segments and the increasing ability of the business to improve the billing cycle supported by sustainable process and system enhancements in the Services division in particular, has driven substantial outperformance in the year.

The Group's investment in fixed, intangible and joint venture assets resulted in a net outflow of £31m (2015: £82m). The ability of the Group to purchase land on deferred terms was the primary driver for a net inflow of £6m in residential investment in the period. The Property division continues to maximise the efficiency with which it used the Group's capital through the use of externally funded joint ventures. The Group's investment in fixed assets included the purchase of £14m of property, plant and equipment and an investment of £25m in intangibles in respect of the Group's ERP system. The balance of investing cash flows include the net movement on assets and liabilities held for resale.

Net interest payments of £18m reflected the revised capital structure of the Group following the acquisition of Mouchel and the full-year cost of the 2014 US Private Placement. Dividend cash flows of £50m have increased from £41m primarily reflecting the 39.6m shares issued in May 2015 as part of the Mouchel acquisition rights issue. Amounts paid to the pension schemes in respect of agreed deficit recovery plans have increased to £25m driven by the additional contribution to the acquired Mouchel Group scheme.

The net cash outflow from non-underlying items totalled £83m. The major components included £36m of cash that was expended on activities resulting from the acquisition of Mouchel and the associated restructuring, and the incorporation of £33m of debt from discontinued mining activities into the Group's net debt balance. The completion of the sale of the F&PS business resulted in a £16m net inflow on 1 July 2015.

Cash performance (£m)

Order books

At 30 June	2016 £bn	2015[2] £bn
Construction	**3.4**	3.5
Services	**5.3**	5.8
Total	**8.7**	9.3

The Group's combined order book remains strong at £8.7bn providing good visibility of forward volumes. The 6% decrease from £9.3bn at 30 June 2015 is the result of the expected unwind of longer-term contracts within the Services division, typical of the contracts in the highways and utilities sectors.

Both the Construction and Services divisions enter the new financial year with more than 90% of targeted revenue either secured or probable.

Pensions

The Group's balance sheet includes the combined deficits of the Kier, May Gurney and Mouchel consolidated pension schemes. The three pension schemes have reported a reduced aggregate deficit of £88m (2015: £154m) before deferred tax.

All of the Group's pension schemes are closed to future accrual and the service charge and interest elements for the combined schemes of £3.3m (2015: £6.8m) and £5.6m (2015: £2.2m) respectively now reflect a full year of the legacy Mouchel schemes and are incorporated into the Group overhead and interest charges.

A strong performance from the pension's asset portfolios resulted in a net gain of £218m. This appreciation was mainly driven by the pension scheme's corporate and government bond investments.

The discount rate applied to the Group's pension liabilities has decreased in the 12 month period from 3.9% to 2.8%. The effect of the reduction in discount rate was partially mitigated by reduced inflation expectations for both RPI and CPI, however this was the main driver of an increase in the Group's liabilities of £152m to £1,648m (2015: £1,496m).

The Group and the pension trustees are currently undertaking the tri-annual review of the pension funding status. Contributions under the existing deficit recovery plans of £25m (2015: £19m) in cash were made in FY16.

Treasury facilities and policies

Facility type	Facility amount (£m)	Expiry
Revolving credit facility	**380**	2020
Funding for lending term loan	**30**	2017
US Private Placement	**183**	2019, 2021, 2022, 2024
Schuldschein loan notes	**81**	2019, 2021, 2023
Overdrafts	**45**	n/a
Asset finance	**46**	n/a
Total	**765**	

[1] Excludes finance leases
[2] Restated to reflect the reallocation of Mouchel Consulting from the Services division to the Construction division.

The Group continues to actively review its treasury and banking facilities and increased its overall borrowing facilities excluding asset finance to £719m during the year (2015: £638m).

The Group's pre-existing facilities as noted above, were all maintained in the year. The Group recently concluded the raising of an additional £81m of debt under a Schuldschein placement into the Euro debt market. This additional facility was secured on variable terms across 3, 5 and 7 years with an average tenor of 4.9 years and is fully hedged with cross-currency and interest rate swaps.

The Group has £26.3m (2015: £71.7m) of finance lease obligations on the balance sheet at 30 June 2016. The overall reduction includes £31.1m of assets disposed of as part of the sale of the F&PS business and £10m in respect of Environmental Services, including contracts exited in the year. The level of finance leases retained within the remaining business are broadly unchanged.

Financial instruments
The Group's financial instruments comprise cash and liquid investments. The Group, largely through its PFI and property joint ventures, enters into derivative transactions (principally interest rate swaps) to manage interest rate risks arising from its operations and its sources of finance. The US dollar and Euro denominated loan notes have been hedged with fixed cross-currency swaps at inception to mitigate the foreign exchange risk. The Group does not enter into speculative transactions.

There are minor foreign currency risks arising from our operations. The Group has a limited number of international operations in different currencies. Currency exposure to international assets is hedged through inter-company balances and borrowings, so that assets denominated in foreign currencies are matched, as far as possible, by liabilities. Where there may be further exposure to currency fluctuations, forward exchange contracts are completed to buy and sell foreign currency.

Dividend policy
The Board is proposing a final dividend of 43.0 pence per share on the 96.1m shares in issue at 30 June 2016. Combined with the interim dividend of 21.5 pence for shares in issue at February 2016, the total dividend declared this year of 64.5 pence (2015: 55.2 pence) represents a 17% increase on prior year, reaffirming our progressive dividend policy.

Going concern
The Chief Executive's strategic review highlights the activities of the Group and those factors likely to affect its future development, performance and financial position. These have been carefully considered by the Board in relation to the Group's ability to operate within its current and foreseeable resources.

The Group has significant financial resources, committed banking facilities, long-term contracts and long order books. For these reasons, the directors continue to adopt the going concern basis in preparing the Group's 2016 financial statements. The full going concern statement is set out on page 48. A summary of the work undertaken by management and the Risk Management and Audit Committee (the RMAC) to support this statement is set out on page 60.

Viability statement
The Board has assessed the viability of the Group over a three-year period ending 30 June 2019, as it is required to do under the UK Corporate Governance Code. The Board's statement is set out on page 48. A summary of the work undertaken by management and the RMAC to support this statement is set out on pages 60 and 61.

Bev Dew
Finance Director

21 September 2016

The Strategic Report is approved by the Board and was signed on its behalf by:

Haydn Mursell
Chief Executive

Bev Dew
Finance Director

21 September 2016