



# Kier Group

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Interim results for the six months ended 31 December 2016

23 March 2017

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# Haydn Mursell

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Chief Executive

# Agenda

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- Overview
  - Highlights
  - Market-leading positions
  - Vision 2020 to date
- Financials
- Divisional update
- Vision 2020
- Group summary and outlook

# Highlights

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## On track with our strategic goals

- Good results
  - Profit up and net debt ahead of expectations
- Portfolio simplification ongoing
  - Consolidating our market-leading positions
- Increased investment
  - Underpins profitability over the medium term
- Strengthening order book
  - Increased visibility
- On track with Vision 2020 goals

# Market-leading positions

## Strong long-term fundamentals

Leading UK  
infrastructure player

£1.5bn+

Leading  
regional builder

£1.8bn+

Housing  
(new build and  
maintenance)

£600m+

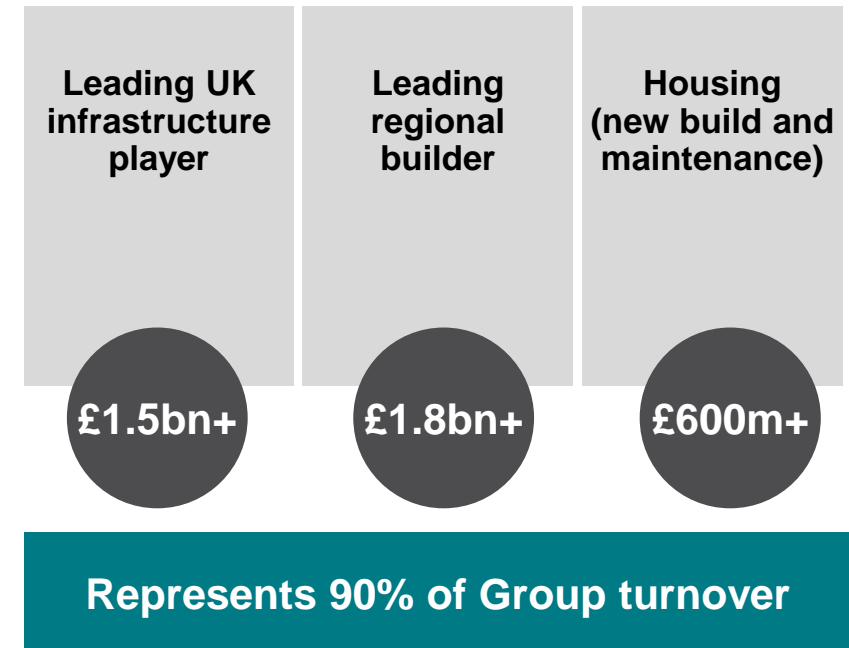
Represents 90% of Group turnover

Invest, Build and Maintain all asset classes

# Market-leading positions

## Strong long-term fundamentals

- Strategic focus aligned to the UK's spending priorities
- Positive Autumn Statement
  - Housing
  - Infrastructure
  - Regional building
- Housing White Paper
- Capabilities to Invest, Build and Maintain all asset classes
  - >£1bn revenue from clients working with >2 parts of the Group
  - Integrated and complementary fit between businesses
    - Opportunities, cash flow, people



# Vision 2020 - Update

Key metrics	2020 target	December 2016
Annual average operating profit growth (%)	>10	On target
Property – ROCE (%)	>15	On target
Residential – ROCE (%)	to 15	Improving – JV Cross Keys will accelerate
Construction – EBITA (%)	to 2.5	2.0% - improving and on track
Services – EBITA (%)	to 5.0	4.8% - on track
Net debt: EBITDA	1:1 by 2017	Achieved and maintained



# Vision 2020 to date - operational

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## Good progress and actions underpin future growth

- Portfolio simplification
  - Mouchel Consulting sale completed
  - Exit of the Caribbean progressing
  - Continued convergence to core operations
- Safety
  - AIR <200
    - Less than half industry benchmark
  - Focus on continued improvement
- Customer Experience
  - 93% recommend us
- Solid platform for the future
  - Ongoing investment in systems
    - Oracle – financial, HR, Procurement
    - Workplace Services, Housing Maintenance and Utilities



# Financial update

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Bev Dew, Finance Director

# Financial highlights

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- Revenue of £2bn
- Underlying operating profit of £56.5m, an increase of 4%
- Underlying EPS increased 11% to 38.9p
- Non-underlying gain of £2m
  - Mouchel Consulting disposal generating a £39m gain
  - Completion delays in Caribbean driving provision of £33m
- Net debt of £179m in line with prior year
- Order book of £8.9bn
- Interim dividend increased by 5% to 22.5p

# Income statement

		Six months ended 31 December		Change
		2016	2015 <sup>2</sup>	%
		£m	£m	
Underlying operating profit <sup>1</sup>	Group	51.3	49.2	+4
	Joint ventures (JVs) results post tax	3.4	2.6	+31
	Profit on disposal of joint ventures	1.8	2.6	-31
Total underlying operating profit		56.5	54.4	+4
Net finance costs		(10.2)	(12.9)	
Underlying profit before tax		46.3	41.5	+12
Underlying earnings per share (pence)		38.9	34.9	+11
Interim dividend per share (pence)		22.5	21.5	+5

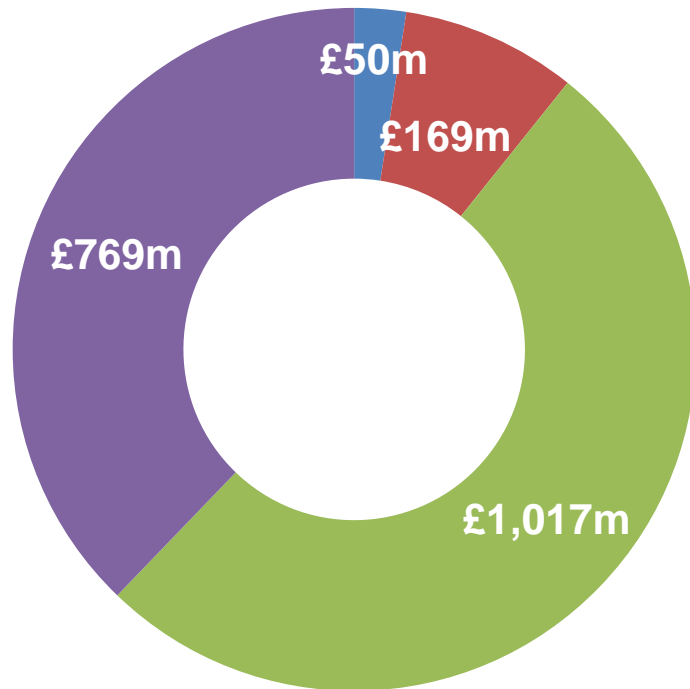
<sup>1</sup> Arising on continuing operations, stated before non-underlying items.

<sup>2</sup> Restated to reflect the reclassification of Mouchel Consulting activities to discontinued operations following its disposal.

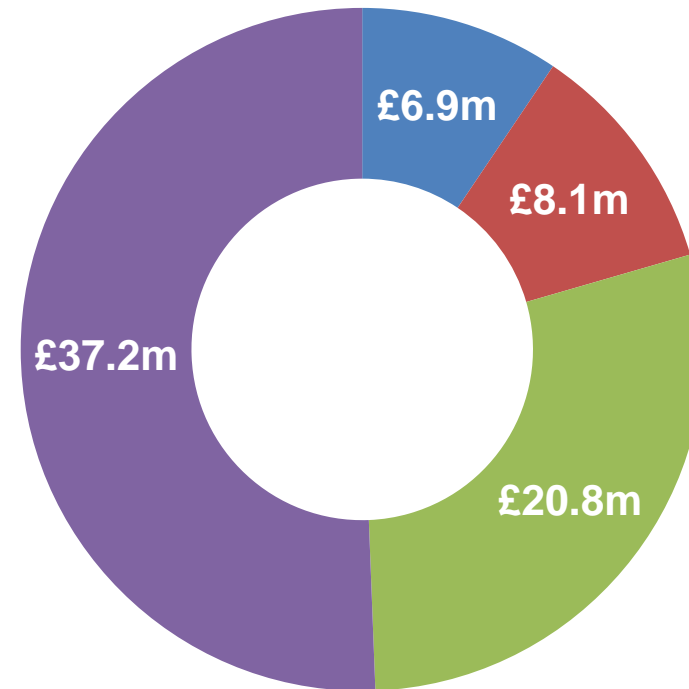
# Revenue and underlying operating profit

## December 2016

Revenue<sup>1</sup>      **£2,004m**      **-1%**



Operating profit<sup>2</sup>      **£73.0m**      **+4%**



<sup>1</sup> Group and share of joint ventures for continuing operations.

<sup>2</sup> Arising on continuing operations, stated before non-underlying items, excluding corporate costs.

# Underlying operating profit

Performance by division	Six months ended 31 December		Change %
	2016 £m	2015 <sup>2</sup> £m	
Property	6.9	7.2	-4
Residential	8.1	6.6	+23
Construction	20.8	17.5	+19
<i>Operating margin</i>	2.0%	1.9%	
Services	37.2	39.1	-5
<i>Operating margin</i>	4.8%	4.7%	
Corporate	(16.5)	(16.0)	+3
<b>Total underlying operating profit<sup>1</sup></b>	<b>56.5</b>	<b>54.4</b>	<b>+4</b>
Net finance cost	(10.2)	(12.9)	-21
<b>Underlying profit before tax<sup>1</sup></b>	<b>46.3</b>	<b>41.5</b>	<b>+12</b>

<sup>1</sup> Arising on continuing operations, stated before non-underlying items.

<sup>2</sup> Restated to reflect the reclassification of Mouchel Consulting activities to discontinued operations following its disposal.

# Property performance

	For the six months ended 31 December			Year ended June 2016
	2016	2015	Change	
	£m	£m	%	£m
<b>Revenue<sup>1</sup></b>				
Developments	43	43	-	135
Structured finance	7	32	-78	41
<b>Total</b>	<b>50</b>	<b>75</b>	<b>-34</b>	<b>176</b>
<b>Underlying operating profit<sup>2</sup></b>				
Developments	6.6	5.1	+29	20.2
Structured finance	0.3	2.1	-86	1.2
<b>Total</b>	<b>6.9</b>	<b>7.2</b>	<b>-4</b>	<b>21.4</b>
<b>Average capital<sup>3</sup></b>				
Developments	(117)	(111)	+5	(104)
Structured finance	(3)	10	-130	10
<b>Total</b>	<b>(120)</b>	<b>(101)</b>	<b>+19</b>	<b>(94)</b>
Developments ROCE	11%	9%	-	19%

<sup>1</sup> Group and share of joint ventures for continuing operations.

<sup>2</sup> Arising on continuing operations, stated before non-underlying items.

# Residential performance

	For six months ended 31 December			Year ended June 2016
	2016	2015	Change	
	£m	£m	%	£m
<b>Revenue</b>				
Mixed tenure	87	79	+10	187
Private (Kier land)	82	83	-1	166
<b>Total</b>	<b>169</b>	<b>162</b>	<b>+4</b>	<b>353</b>
<b>Underlying operating profit<sup>1</sup></b>				
Mixed tenure	1.3	0.9	+44	6.0
Private (Kier land)	6.8	5.7	+19	14.3
<b>Total</b>	<b>8.1</b>	<b>6.6</b>	<b>+23</b>	<b>20.3</b>
<b>Average capital<sup>2</sup></b>				
Mixed tenure	(43)	(52)	-17	(39)
Private (Kier land)	(163)	(194)	-16	(192)
<b>Total</b>	<b>(206)</b>	<b>(246)</b>	<b>-16</b>	<b>(231)</b>
<b>Return on Average Capital (ROCE)</b>				
Mixed tenure	6%	3%	+3	15%
Private (Kier land)	8%	6%	+2	7%
<b>Total</b>	<b>8%</b>	<b>5%</b>	<b>+3</b>	<b>9%</b>
<b>Land bank units</b>	<b>3,058</b>	<b>3,302</b>	<b>-7</b>	<b>3,279</b>

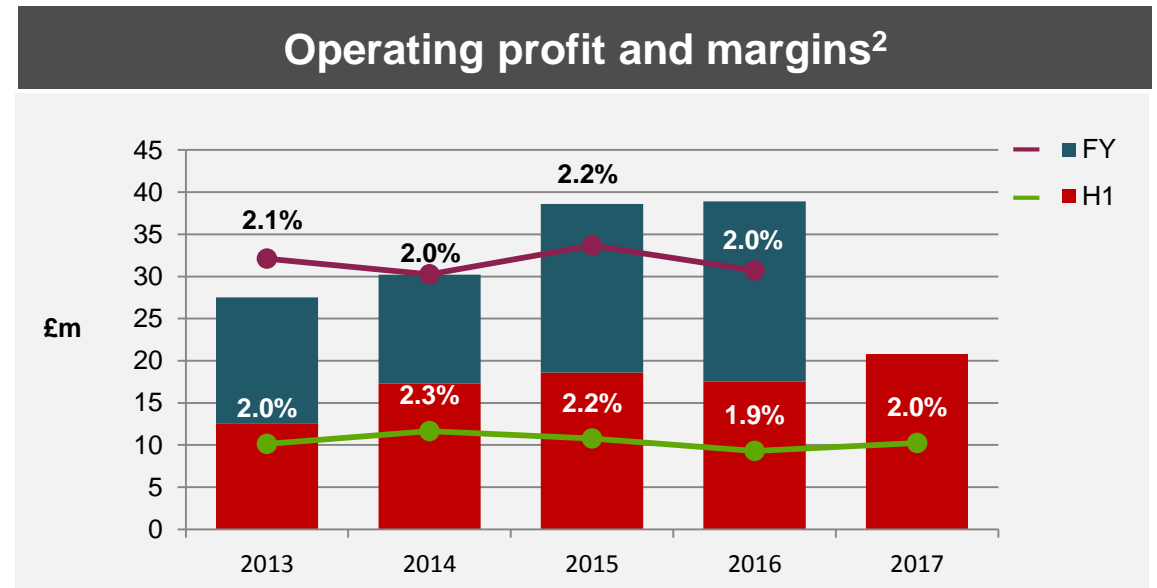
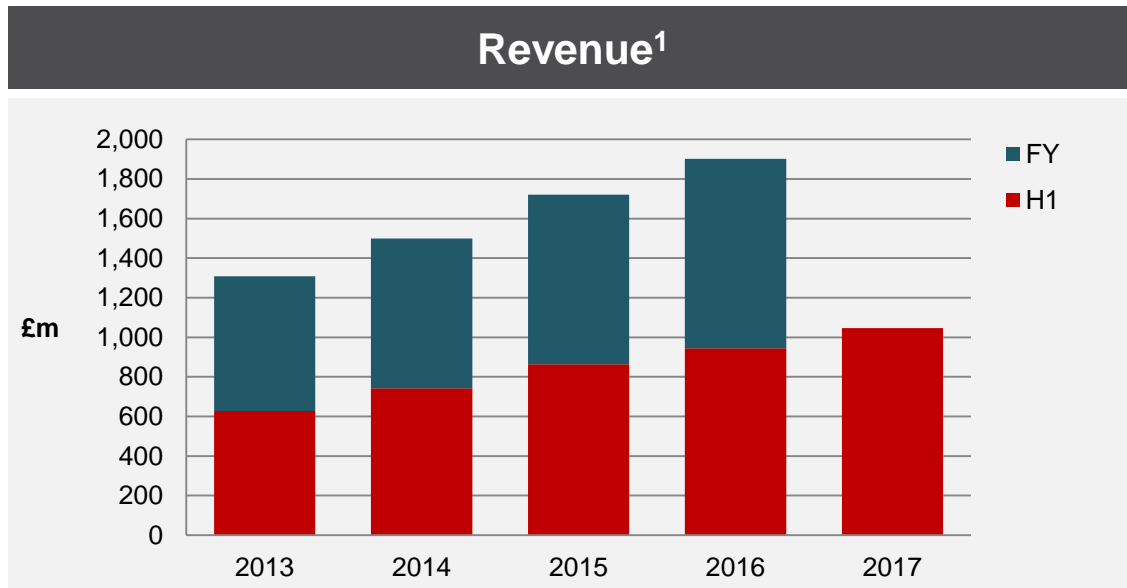
<sup>1</sup> Arising on continuing operations, stated before non-underlying items.

<sup>2</sup> Equates to average net debt.



# Construction performance

	For the six months ended 31 December		
	2016 £m	2015 <sup>3</sup> £m	Change %
Revenue <sup>1</sup>	1,017	945	+8
Underlying operating profit <sup>2</sup>	20.8	17.5	+19
Underlying operating margin <sup>2</sup>	2.0%	1.9%	
Order book (secure and probable)	3.3bn	3.3bn	-



<sup>1</sup> Group and share of joint ventures for continuing operations.

<sup>2</sup> Arising on continuing operations, stated before non-underlying items.

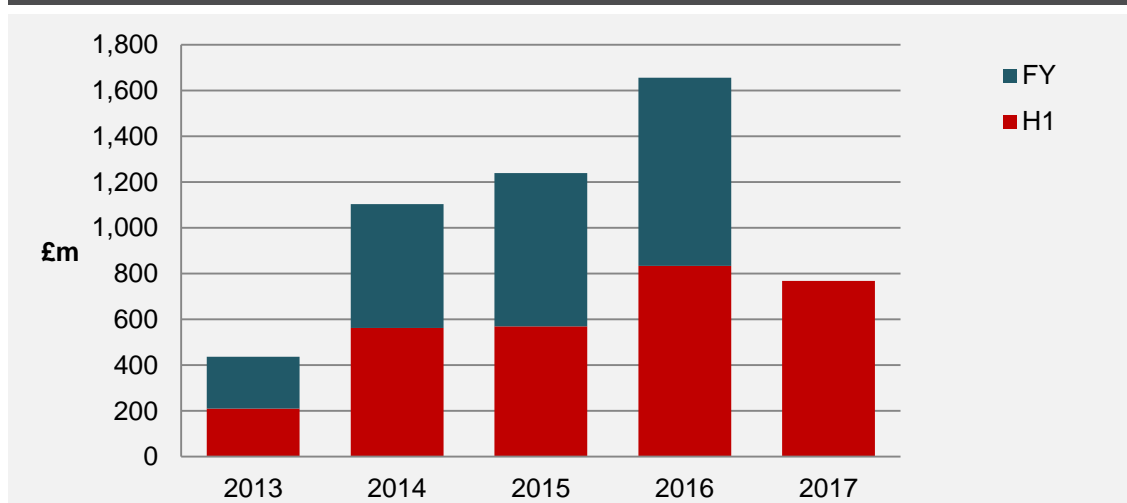
<sup>3</sup> Restated to reflect the reclassification of Mouchel Consulting activities to discontinued operations following its disposal.

# Services performance

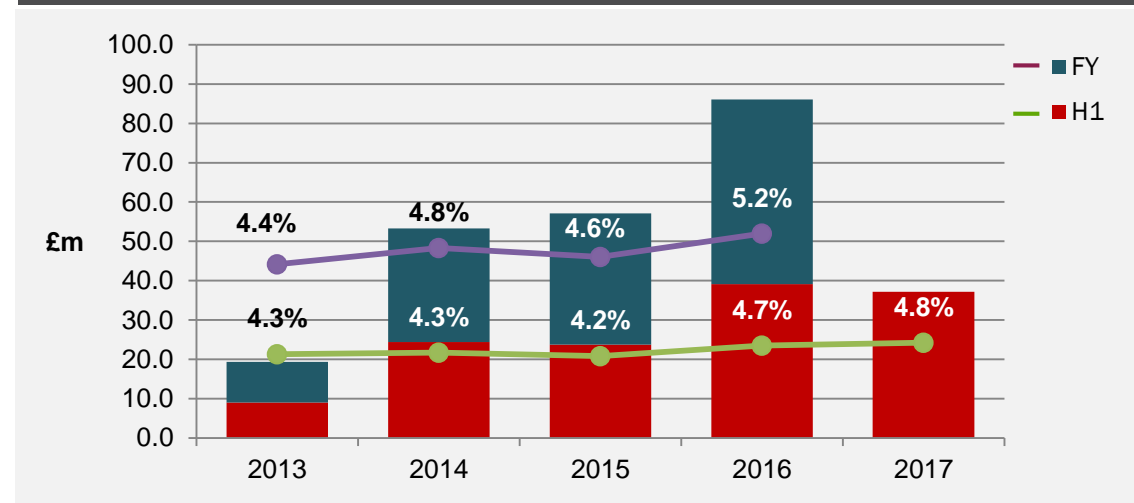


	For the six months ended 31 December		
	2016 £m	2015 <sup>3</sup> £m	Change %
Revenue <sup>1</sup>	769	834	-8
Underlying operating profit <sup>2</sup>	37.2	39.1	-5
Underlying operating margin <sup>2</sup>	4.8%	4.7%	
Order book (secure and probable)	5.6bn	5.5bn	+2

## Revenue<sup>1</sup>



## Operating profit and margins<sup>2</sup>



<sup>1</sup> Group and share of joint ventures for continuing operations.

<sup>2</sup> Arising on continuing operations, stated before non-underlying items.

<sup>3</sup> Restated to reflect the reclassification of Mouchel Consulting activities to discontinued operations following its disposal.

# Non-underlying items<sup>1</sup>

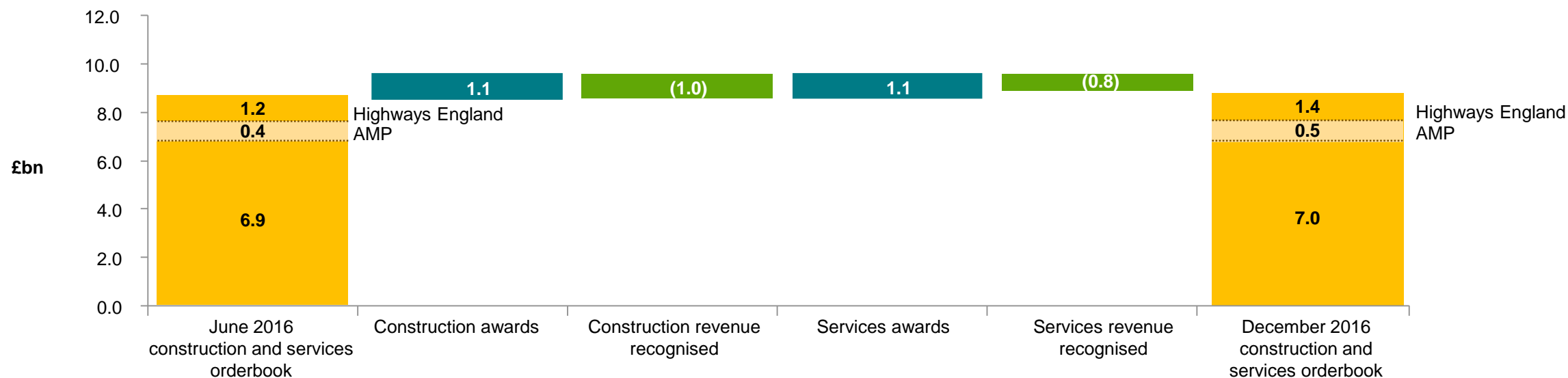
	£m
Gain relating to the disposal of Mouchel Consulting	38.7
Provision for closure of Caribbean operations and related contract final accounts	(33.0)
Other	(3.9)
<b>Total non-underlying items from continuing operations</b>	<b>1.8</b>
Associated tax credit	9.7
<b>Credited to profit for the period from continuing operations</b>	<b>11.5</b>

Non-underlying items will not impact year end debt guidance of EBITDA : net debt of 1:1

<sup>1</sup>Excluding amortisation of intangible contract rights and acquisition discount unwind.

# Order book

	At 31 December 2016	At 30 June <sup>1</sup> 2016	Change	At 31 December <sup>1</sup> 2015
	£bn	£bn	%	£bn
Construction	3.3	3.2	+3	3.3
Services AMP	0.5	0.4	+25	0.5
Services Highways England	1.4	1.2	+17	1.4
Services other	3.7	3.7	0	3.6
Services Total	5.6	5.3	+6	5.5
<b>Total</b>	<b>8.9</b>	<b>8.5</b>	<b>+5</b>	<b>8.8</b>



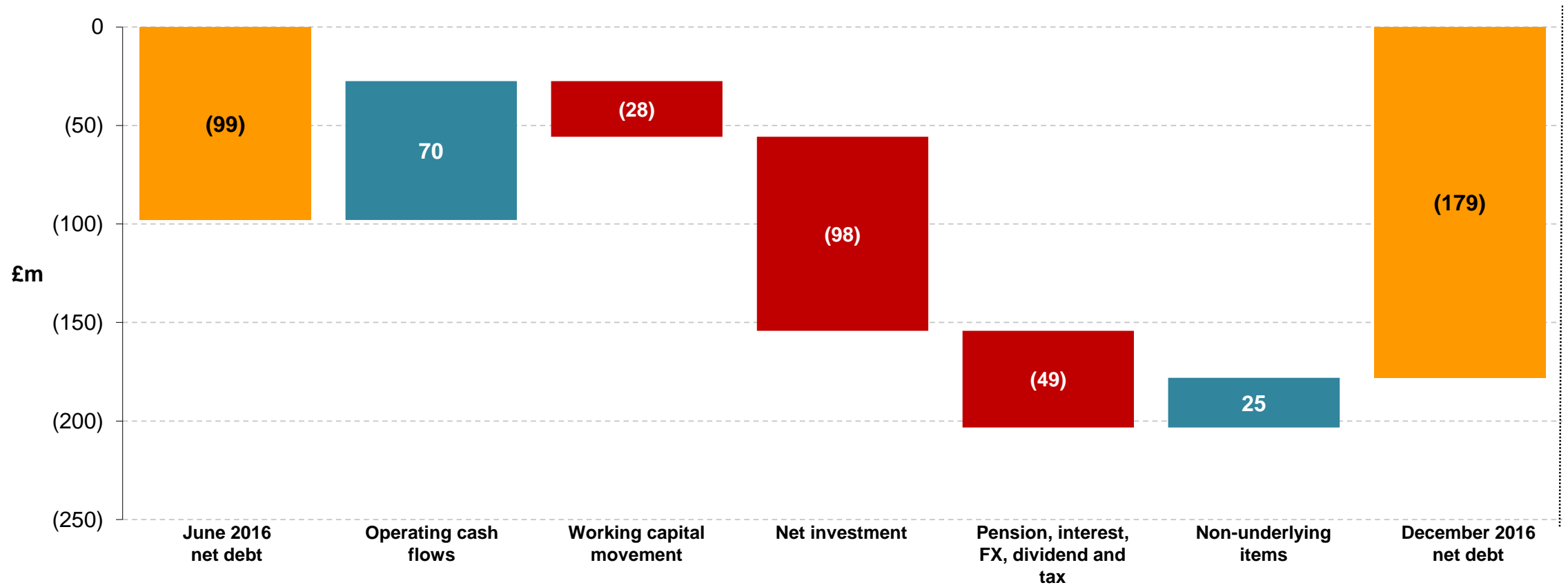
<sup>1</sup> Restated to reflect the reclassification of Mouchel Consulting activities to discontinued operations following its disposal.

# Balance sheet summary

	At 31 December	At 30 June	<i>Change</i>	At 31 December
	2016 £m	2016 £m	<i>£m</i>	2015 £m
Intangible assets	794	795	-1	782
Property, plant and equipment	90	99	-9	112
Investment in JVs	130	130	-	107
Residential land and work in progress	370	315	+55	306
Net assets held for resale	-	4	-4	(8)
Other working capital	(456)	(475)	+19	(295)
Net debt	(179)	(99)	-80	(174)
Provisions	(90)	(80)	-10	(69)
Pensions (net of deferred tax)	(68)	(72)	+4	(111)
Finance lease obligations	(20)	(26)	+6	(33)
Tax and deferred tax	9	(15)	+24	(31)
<b>Net assets</b>	<b>580</b>	<b>576</b>	<b>+4</b>	<b>586</b>

# Group net debt<sup>1</sup>

Operating cash conversion of 124%



<sup>1</sup>Excludes finance lease obligations.

# Pensions

## Effective risk management

		At 31 December	At 30 June	Change	At 31 December
		2016 £m	2016 £m	£m	2015 £m
Kier Group Pension Scheme:					
	Market value of assets	1,125	1,066	+59	894
	Present value of liabilities	(1,146)	(1,089)	-57	(964)
	Deficit in the scheme	(21)	(23)	+2	(70)
	Deferred tax	4	4	-	14
	<b>Net pension liability</b>	<b>(17)</b>	<b>(19)</b>	<b>+2</b>	<b>(56)</b>
Mouchel Pension Schemes:					
	Market value of assets	449	423	+26	355
	Present value of liabilities	(505)	(481)	-24	(420)
	Deficit in the scheme	(56)	(58)	+2	(65)
	Deferred tax	10	10	-	13
	<b>Net pension liability</b>	<b>(46)</b>	<b>(48)</b>	<b>+2</b>	<b>(52)</b>
	Net effect of May Gurney and Translinc Schemes	(5)	(5)	-	(3)
	<b>Total net pension liability</b>	<b>(68)</b>	<b>(72)</b>	<b>+4</b>	<b>(111)</b>
Key assumptions:					
	Discount rate	2.75%	2.80%		3.80%
	Inflation rate - RPI	3.20%	2.80%		3.10%
	Inflation rate - CPI	2.10%	1.70%		2.00%

# Financial summary

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- Operating profit<sup>1</sup> up 4% to £56.5m
- Underlying EPS growth of 11% to 38.9p
- Net debt stable
- Well controlled pension position
- Investment in Property, Residential and back-office systems
- Improved order book of £8.9bn
- Increased interim dividend by 5% to 22.5p

<sup>1</sup> Arising on continuing operations, stated before non-underlying items.





# Operational update

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Haydn Mursell, Chief Executive

# Property



Sovereign Square, Leeds



York Street, Manchester



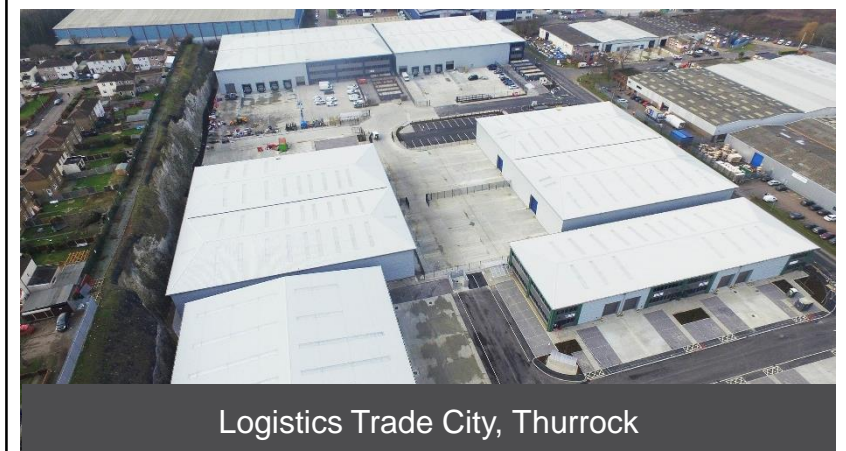
Snowhill Retail Park, Wakefield



Watford Health Campus, Riverside

## On track for 15% ROCE on increasing capital

- Solid performance taking advantage of Brexit opportunities
  - Increased capital investment
  - Good support from co-investors
- Stable market conditions now
  - Greater focus on good locations, 80% outside London
  - £1bn+ pipeline maintained, modest value opportunities
- Increasing capital investment
  - £200m by 2020 in line with strategy
- Critical skill set for integrated services
  - Utilising cash and providing opportunities for Construction
  - Development opportunities for clients





# Residential



Crispin Gardens, Rushden  
Private



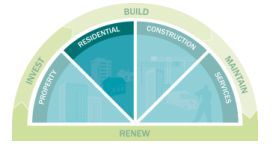
Connect 21, Peterborough  
Mixed tenure



Pennance Field, Falmouth  
Mixed tenure



Millbrook Meadows, Cambridgeshire  
Private



## Mixed tenure focus improving ROCE

- Mixed tenure
  - Increasing ROCE
  - £42m HCA grant secured (c1,700 units)
  - £600m pipeline (3-4 years); >90% secured for 2017
- Private (Kier land)
  - Sales rates and prices ahead of prior year, >85% forward sold
  - ROCE expected to improve following Cross Keys Homes JV

- White Paper – key themes for Kier
  - Better use of public sector land
  - Quicker planning and therefore construction
  - Focus on rental, not just ownership
- Joint ventures
  - New Communities Partnership
  - Northern Ventures

*Updated local plans and increased powers for LAs to progress faster house building*

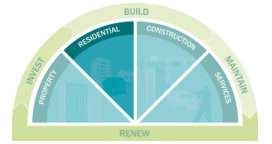
*Increased focus on LA and HCA land will increase the pipeline of Mixed Tenure schemes*

*Focus on rented sector will also provide maintenance opportunities*

*Land rich, cash constrained. Land transferred to geared JV. Develop and share returns*

*Cash rich, looking for development schemes. Purchase in JV which is then geared. Share the returns. High ROCE*

# Residential: Joint Venture with Cross Keys Homes

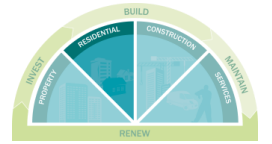


## Acceleration of Vision 2020 strategy

- Rationale
  - Retain strong Kier management
  - Capital efficiency
  - Higher ROCE
- Structure
  - 90/10 Kier/Cross Keys Homes JV (equal voting rights)
  - c.£97m assets transferred; 13 sites
  - c.£64m cash received
  - Modest accounting charge on entry



# Residential Homes

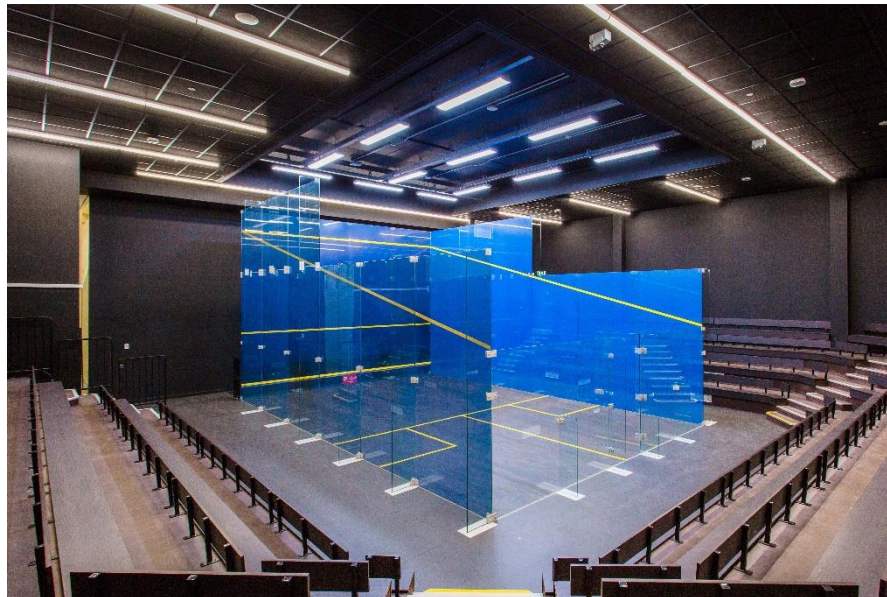


## Well positioned for 15% ROCE

- Continue with our focus on mixed tenure housing
  - Cross Keys Homes JV has accelerated capital available to service growth
- Vision 2020 goals in sight
  - Ongoing capital base of c£200m
  - On track with 15% ROCE strategy
- Well positioned to address the UK housing shortage
  - National coverage with regional focus
  - Utilise skills from private business
  - Ability to provide new build and maintenance
- Aim to be leading mixed tenure housing provider in the UK



# Construction



University of Nottingham, David Ross Sports Village



University of Cambridge, Peterhouse



Mersey Gateway



Project Capella, Cambridge



# Construction



## Controlled growth in market share

### UK regional building

- Strong organic growth
- Market leader with national coverage
- Continued focus on frameworks
  - Education, Health, etc
- New growing sectors
  - Aviation, Biotech.
- Solid cash performance

Sector	Revenue		Future trend	
	Dec 2016	June 2016	Short term	Medium term
Education	37%	29%	↔	↔
Commercial, residential and mixed use	21%	20%	↔	↗
Health	8%	12%	↗	↗

### Infrastructure

- Good medium-term revenue visibility
  - Significant pipeline
- Broad range of sectors addressable
  - Power, Transport, Utilities
- Long lead time on projects

Sector	Revenue		Future trend	
	Dec 2016	June 2016	Short term	Medium term
Transportation	11%	14%	↔	↗
Power, industrial, utilities & waste	8%	9%	↔	↗



## International focus and stability

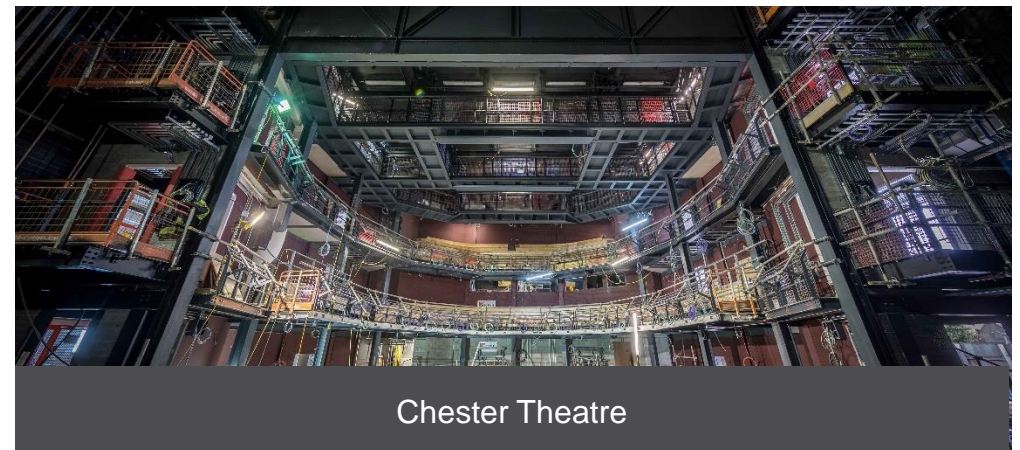
### International

- Middle East focus
  - Dubai focus - Expo 2020
  - Low oil price presents some challenges
  - UKEF differentiates
- Caribbean activity expected to fully wind down in the next six months

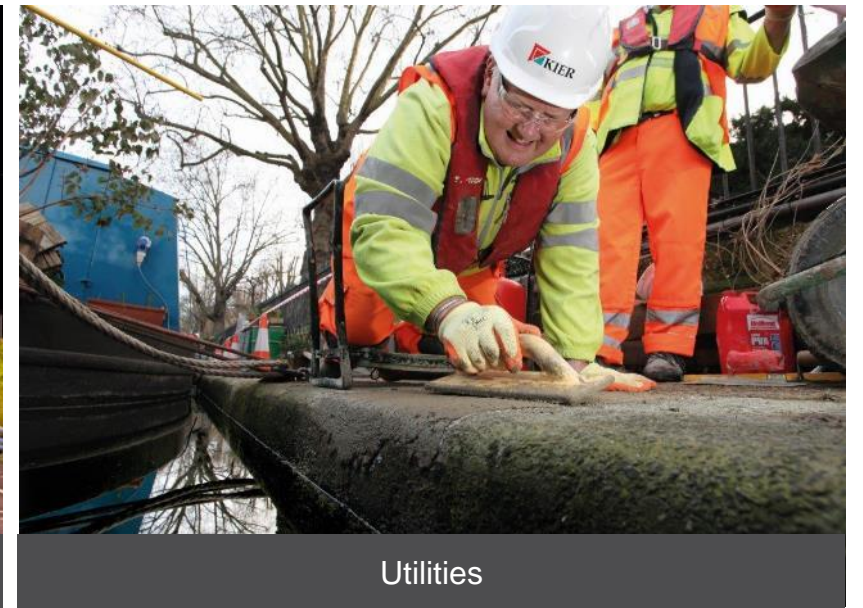
Sector	Revenue		Future trend	
	Dec 2016	June 2016	Short term	Medium term
International	10%	12%	↔	↔

## Positive and improving performance

- Strong platform
  - Secured c.£1bn of work
  - Improved order book of £3.3bn
  - 100% secured for 2017
- Well positioned for the long term
  - Leading UK regional builder
  - Significant infrastructure pipeline
  - Focused international business
- Balanced workload
  - 50:50 private:public sector
- Margins improving in line with strategy



# Services





# Infrastructure Services



## Strong market positions maintained

### Highways

- Increasing market share
  - HE % cap and area limit increased
  - Areas 13, 6 & 8, 1 & 2 awarded (total value c£300m)
  - Design and maintenance capabilities
- UK's leading highways provider
- Local Authority market – competitive pricing

### Utilities

- AMP6 water contracts on track
- New wins
  - Scottish Water / Bournemouth Water
  - National Grid
- Look to broaden sector activity
  - Telecoms
  - Power

Sector	Revenue		Future trend	
	Dec 2016	June 2016	Short term	Medium term
Highways	45%	45%	↔	↗
Utilities and other regulated	15%	15%	↔	↗

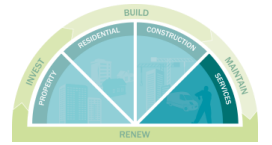


Highways



Utilities

# Property Services



## Diverse and stable portfolio

### Housing Maintenance

- Top 3 UK player
- Challenging market remains
- Clients' interest
  - Management and maintenance
  - New build and maintenance

### Workplace Services

- Growing revenue and private sector activity
  - Heritage and Arts sector
- Geographic coverage sought across the UK
  - Wales awards: Powys £100m
- >25% of work internally sourced

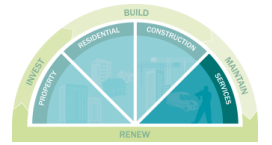
Sector	Revenue		Future trend	
	Dec 2016	June 2016	Short term	Medium term
Housing maintenance - public	13%	12%	↔	↔
Housing maintenance - private	5%	6%	↔	↗
Workplace Services	15%	14%	↗	↗



Housing Maintenance

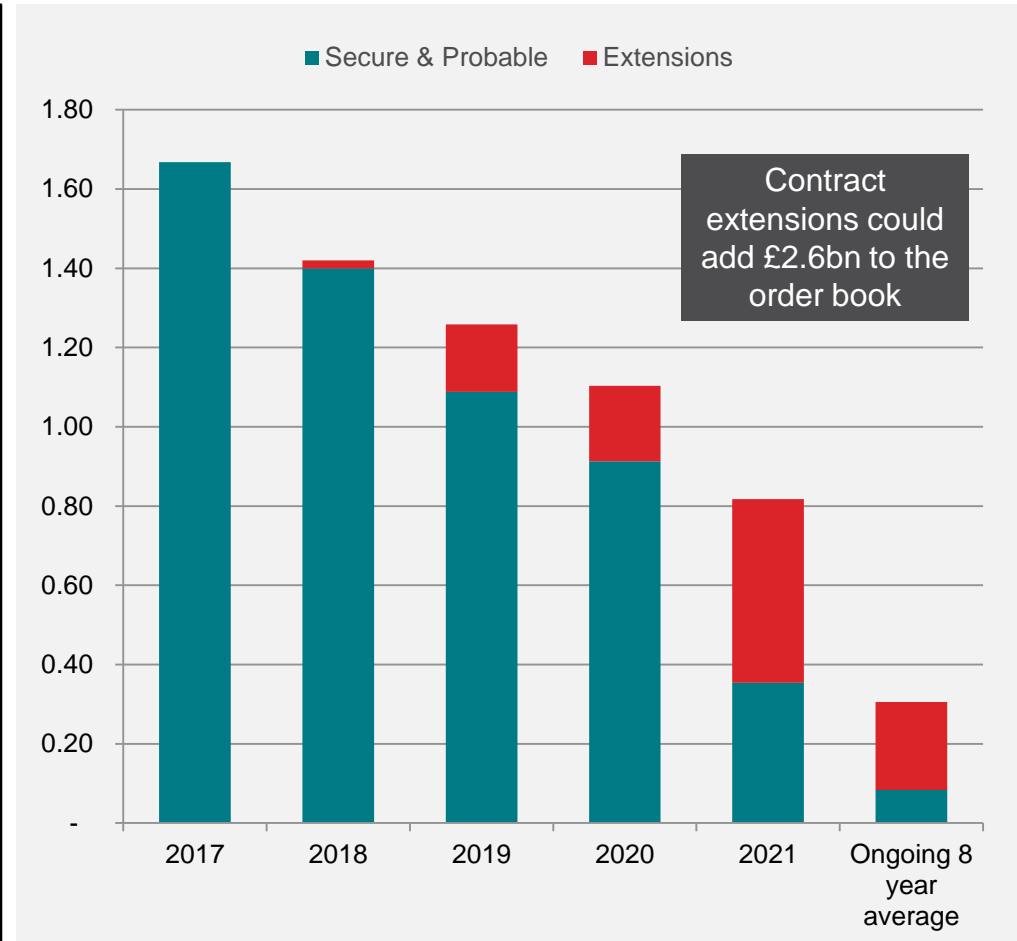


Workplace Services



## Resilient with long-term visibility

- **Strong platform**
  - Secured c.£1bn of work
  - Improved order book £5.6bn
  - Well secured for 2017
- **Strong market positions**
  - Leading UK highways maintenance provider
  - Top 3 housing maintenance provider
  - Integration options with
    - Regional building
    - Infrastructure
    - Mixed tenure housing
- **Margins of c5% in line with strategy**





# Group Outlook

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# Positive macro environment

## Well-positioned in robust end markets

- UK priorities
  - Regeneration of regional cities
    - Schools, Hospitals, Prisons, Social care
  - Upgrading and investing in Infrastructure
    - Power generation, transport, utilities
  - Provision of more affordable housing
    - Use of public sector land
- Our position
  - Regional builder with national coverage
    - Ability to cover all sectors and geographies
    - Largest framework presence
  - Capex and maintenance capabilities
    - Leading highways provider
    - Significant power and utilities presence
    - Flexible to Totex / PPP requirements
  - End-to-end housing capabilities
    - Development, Contracting, Maintenance
    - Significant number of local authority relationships

# Positive macro environment

## Well positioned in robust end markets

Leading UK  
infrastructure player

£1.5bn+

Leading  
regional builder

£1.8bn+

Housing  
(new build and maintenance)

£600m+

## Represents 90% of Group turnover

- Capabilities to Invest, Build and Maintain all asset classes
  - >£1bn revenue from clients working with >2 parts of the Group

# Group summary and outlook

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## Strong platform for future growth

- Good first half performance
  - Profit in-line; net debt ahead of expectations
- Focus on core operations
  - Portfolio simplification ongoing
- Investing in strong platform for growth
  - Strengthening order book
- Continued progress with Vision 2020
  - Double-digit profit growth
- On course to deliver on our expectations



# Appendices

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# Financing Facilities

Facility type	December 2016 £m	June 2016 £m	Maturity
US Private Placement	183	183	2019,2021, 2022,2024
Schuldschein Loan Notes	81	81	2019, 2021, 2023
Revolving credit facility	380	380	2020
Funding for lending scheme loan	30	30	2017
Overdraft	35	45	
Asset finance	42	46	
<b>Total</b>	<b>751</b>	<b>765</b>	

# Property

## Structured finance (as at 31 December 2016)

	Project	Status	Capital value £m	Kier equity/loan stock £m	Equity %
Local authority	Woking housing	In operation	31	2.0	50.0
	Social Power, Harlow	In operation	1.1	1.1	100.0
Student accommodation	Glasgow (direct let)	In operation	22	5.2	75.0
	Newcastle (direct let)	In construction	33	8.9	75.0
	Southampton (direct let)	Pre-construction	37	11.8	100.0
Education	East Ayrshire Schools	Preferred bidder	43	1.0	24.0
	South Ayrshire Schools	Preferred bidder	24	0.6	24.0
Blue light	London Fire Stations	In operation	44	2.1	50.0
	Stoke and Staffordshire Fire Stations	In operation	29	2.3	80.0
Committed Investment				£35.0m	

Jade: Kier Construction and Services Red: Kier Construction Black: Investment only.

Of the £35.0m committed, £25.7m has been invested to date.

Directors' valuation at 7.5% for PFIs and at appropriate yields for student accommodation - £45.3m.

# UK highways footprint

