‘Good governance is essential to the way in which our business operates on a day-to-day basis’
Corporate Governance Statement

Chairman’s introduction

Q&A with Philip Cox CBE

Q As the new Chairman, what is your view on the role of governance?
A Good governance is essential to the way in which our business operates on a day-to-day basis; one of the key responsibilities of the Board is to oversee the continuous development of the Group’s governance structure so as to support the effective delivery of its strategy.

In this part of the Annual Report, we describe governance at Kier, the principal activities of the Board and its committees throughout the year and how Kier has complied with the UK Corporate Governance Code (April 2016 edition) (the Code).

Q What role does the Board play in setting the culture of the Group?
A We play an important role in setting the Group’s culture and, in my initial months at Kier, it is clear that the Board demonstrates the Group’s core values – forward-thinking, collaborative and enthusiastic. Throughout the year, the Board has worked well, managing the Group’s growth closely and its progress against Vision 2020, in light of some challenging market conditions. It is also important for us to be visible within the business and, during the year, members of the Board have visited a number of the Group’s sites, providing an opportunity to hear employees’ views on a range of matters. As part of my induction, I have also visited a number of sites and have found this a very useful way of developing my understanding of the business.

Q Have there been any changes to the Board during the year?
A The principal focus of the Nomination Committee was to identify a successor to Phil White as Chairman. The process undertaken by the Committee is summarised on page 71. I am delighted to have been appointed to the role and look forward to working with the Board over the years to come. The only other change to the Board during the year was the appointment of Constance Baroudel as Chair of the Remuneration Committee following the 2016 AGM when Amanda Mellor, the previous Chair, did not stand for re-election.

Q The 2017 Board evaluation was externally-facilitated – what issues did it identify?
A The 2017 Board evaluation confirmed that the Board is effective, with a strong mix of skills. The evaluation also provided a number of areas for us to focus on in 2018, including ensuring that time is set aside to continue to review progress against the Group’s strategy and to oversee the continued review of the Group’s risk management framework. It also confirmed that the Board has made good progress with respect to the action plan which was agreed following the 2016 Board evaluation process. Further details are set out on pages 68 and 69.

Q The Board is accountable for the Group’s management of risk. How has the Board discharged its responsibilities?
A During the year, the Board assessed the principal risks and uncertainties facing the Group, together with its appetite with respect to each of these risks. In light of these assessments, the Board, via the Risk Management and Audit Committee (the RMAC), reviewed the effectiveness of the Group’s systems of risk management and internal control. Further details of how the Group manages risk are set out on pages 34 to 36 (inclusive). Please also see page 62 for the statements which, under the Code, the Board is required to provide with respect to the management of risk and other matters.

Q Are there material changes to Kier’s remuneration policy this year?
A During the summer of 2017, Constance Baroudel led the consultation with shareholders with respect to a new remuneration policy, which is set out on pages 86 to 93 (inclusive) and is subject to approval by shareholders at the forthcoming AGM. We were grateful to shareholders for the level of engagement and their positive feedback. Shareholders will note that, following the consultation, the Remuneration Committee decided that there was no need to make significant changes to the policy which was approved at the 2014 AGM.

Q What engagement with shareholders has the Board had during the year?
A We remain committed to regular and active dialogue with our shareholders. During the year, and in addition to Constance’s meetings with shareholders, our Senior Independent Director, Justin Atkinson, and Phil White met major shareholders to understand their views on a range of issues (including the Chairman’s succession and risk management). A number of other investor relations events took place during the year, details of which are provided on page 81.

As the new Chairman, I have written to a number of major shareholders to offer a meeting to introduce myself. I also look forward to meeting shareholders at the AGM on 17 November 2017.

Philip Cox CBE
Chairman

20 September 2017
<table>
<thead>
<tr>
<th>Strategic priority</th>
<th>The Board’s governance role</th>
<th>What we achieved in 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operate a safe and sustainable business</strong></td>
<td>The Board, together with the Safety, Health and Environment Committee, oversees the framework within which the Group manages safety, health and environmental risks. For further information, please see ‘Corporate responsibility’ on pages 30 to 33 (inclusive).</td>
<td>• Oversaw a 38% reduction in the Group’s reportable accident incidence rate. • Led the culture of ‘visible leadership’ on safety matters, with regular site visits by members of the Board. • Challenged management to communicate ‘lessons learned’ from safety and environmental incidents effectively.</td>
</tr>
<tr>
<td><strong>Accelerate growth to be a top three player in our chosen markets</strong></td>
<td>The Board approves the Group’s strategy, reviews subsequent progress and makes decisions to support the strategy’s delivery. For further information on progress during the year, please see the ‘Chief Executive’s strategic review’ on pages 14 to 19 (inclusive).</td>
<td>• Monitored progress against Vision 2020, with regular reviews during the year. • Completed the acquisition of McNicholas, a leading infrastructure services provider, in July 2017. • Oversaw the simplification of the Group’s portfolio to enable greater focus on its principal businesses.</td>
</tr>
<tr>
<td><strong>Achieve top quartile performance and efficiency</strong></td>
<td>The Board sets operational and financial targets and reviews performance by the Group’s businesses. For further information on the businesses’ performance, please see the divisional reviews on pages 42 to 51 (inclusive).</td>
<td>• Monitored the businesses’ performance against a set of formal key performance indicators. • Challenged management to maintain its disciplined approach to working capital management. • Approved management’s strategies relating to under-performing businesses.</td>
</tr>
<tr>
<td><strong>Provide sector-leading customer experience</strong></td>
<td>The Board, via management, oversees the delivery of services to customers and reviews and challenges reports which provide details of customer feedback. For further information on customer feedback, please see ‘Strategic performance’ on page 25.</td>
<td>• Challenged management to promote effective client relationship management systems throughout the Group. • Discussed how to strengthen and develop key client relationships. • Encouraged active measurement of client satisfaction by the business.</td>
</tr>
<tr>
<td><strong>Attract and retain highly-motivated, high-performing teams</strong></td>
<td>The Board, together with the Nomination Committee, reviews the pipeline of potential talent at senior level and challenges management to ensure that the Group is appropriately resourced. For further information on the senior management succession plan, please see the Nomination Committee report on pages 70 and 71.</td>
<td>• Reviewed management’s processes for identifying, attracting and retaining talent. • The Nomination Committee reviewed the senior management succession plan. • Discussed appointments to senior positions within the business.</td>
</tr>
<tr>
<td><strong>Embracing innovation and technology across our business</strong></td>
<td>The Board challenges management to support a focus on innovation to drive the Group’s future growth. For further information on steps taken to promote innovative practices, please see ‘Strategic performance’ on page 27.</td>
<td>• Approved innovation as a new area of focus within Vision 2020. • Reviewed management’s proposals to drive innovation throughout the Group. • Oversaw the establishment of a Group-wide innovation forum.</td>
</tr>
</tbody>
</table>
Corporate Governance Statement

Board statements

Under the Code, the Board is required to make a number of statements. These statements are set out in the following table:

<table>
<thead>
<tr>
<th>Requirement</th>
<th>Board statement</th>
<th>Where to find further information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compliance with the Code</td>
<td>The Directors confirm that, throughout the 2017 financial year, the Company complied with the provisions of the Code, except as described below, and continued to apply the main principles of the Code.</td>
<td>'Explanation of non-compliance with the Code' below. ‘Application of the main principles of the Code’ on page 63.</td>
</tr>
<tr>
<td>Going concern basis</td>
<td>The Directors are satisfied that the Group has sufficient financial resources to continue operating in the foreseeable future and, therefore, have adopted the going concern basis in preparing the Group’s 2017 financial statements.</td>
<td>Financial review on pages 52 to 57 (inclusive). Strategic Report on pages 1 to 57 (inclusive). Principal risks and uncertainties on pages 37 to 41 (inclusive). Board statements – ‘Going concern’ in the Risk Management and Audit Committee report on page 75.</td>
</tr>
<tr>
<td>Viability statement</td>
<td>The Directors have assessed the viability of the Group over a three-year period ending 30 June 2020, taking into account the Group’s current position and certain of the principal risks and uncertainties set out on pages 37 to 41 (inclusive). Following this assessment, the Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over this period.</td>
<td>Principal risks and uncertainties on pages 37 to 41 (inclusive). ‘Systems of risk management and internal control’ in ‘Accountability’ on page 72. ‘Board statements – Viability statement’ in the Risk Management and Audit Committee report on page 75.</td>
</tr>
<tr>
<td>Robust assessment of the principal risks facing the Group</td>
<td>The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Directors also assessed, via the RMAC, their appetite with respect to these risks and considered the systems required to mitigate and manage them.</td>
<td>Principal risks and uncertainties on pages 37 to 41 (inclusive). ‘Assessment of principal risks’ in ‘Accountability’ on page 72.</td>
</tr>
<tr>
<td>Annual review of systems of risk management and internal control</td>
<td>During the 2017 financial year, the Board monitored the Group’s systems of risk management and internal control, via the RMAC, and carried out a review of their effectiveness. The conclusion was that, overall, these systems were effective.</td>
<td>‘Systems of risk management and internal control – Effectiveness review’ in the Risk Management and Audit Committee report on page 74.</td>
</tr>
<tr>
<td>Fair, balanced and understandable</td>
<td>The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s position and performance, business model and strategy.</td>
<td>‘Board statements – Fair, balanced and understandable review’ in the Risk Management and Audit Committee report on pages 74 and 75.</td>
</tr>
</tbody>
</table>

A full version of the Code can be found on the Financial Reporting Council’s website: www.frc.org.uk.

Explanations of non-compliance with the Code

Kier complies with all provisions of the Code other than Code provision B.2.3, which requires Non-Executive Directors to be appointed for specified terms. Although Adam Walker and Constance Baroude were each appointed for an initial term of three years, the other Non-Executive Directors were not appointed for a specified term.

However, each Non-Executive Director’s letter of appointment contains a notice period of one month (either way) and his/her appointment is subject to annual re-election and to statutory provisions relating to the removal of directors. The Company’s current policy is that all Directors, including the Non-Executive Directors, are subject to annual re-election at the Company’s AGM and that, in the future, all Non-Executive Directors (other than the Chairman) will be appointed for an initial three-year term.
Application of the main principles of the Code

During the 2017 financial year, the Company continued to apply the main principles of the Code, as follows:

A. Leadership

A1 The Board’s role The Board met formally nine times during the year (with other meetings being held during the year to discuss specific matters). There is a clear schedule of matters reserved for the Board (please see page 64 for a summary), together with delegated authorities which are used throughout the Group.

A2 A clear division of responsibilities The roles of the Chairman and Chief Executive are clearly defined. The Chairman is responsible for the leadership and effectiveness of the Board. The Chief Executive is responsible for leading the day-to-day management of the Group within the strategy set by the Board.

A3 Role of the Chairman The Chairman sets the agendas for Board meetings, manages the meetings (in conjunction with the Company Secretary) and facilitates open and constructive dialogue during them.

A4 Role of the Non-Executive Directors The Chairman promotes an open and constructive environment in the boardroom and actively invites the Non-Executive Directors’ views. The Non-Executive Directors provide objective, rigorous and constructive challenge to management and hold meetings at which the Executive Directors are not present.

B. Effectiveness

B1 The Board’s composition The Nomination Committee is responsible for regularly reviewing the composition of the Board. In recommending appointments to the Board, the Nomination Committee considers the range of skills, knowledge and experience required, taking into account the benefits of diversity on the Board, including gender.

B2 Board appointments The appointment of new Directors is led by the Nomination Committee. Further details of the activities of the Nomination Committee can be found on pages 70 and 71.

B3 Time commitments On appointment, Directors are notified of the time commitment expected from them which, in practice, goes beyond that set out in their letter of appointment. External directorships, which may affect existing time commitments, must be agreed with the Chairman.

B4 Induction, training and development All Directors receive an induction on joining the Board. Training is made available to members of the Board in accordance with their requirements. Please see page 68 for details of Constance Baroudel’s induction during the year.

B5 Provision of information and support The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information.

B6 Board and committee performance evaluation During the 2017 financial year, the Board undertook an evaluation of its own performance. Details of the evaluation, which was externally-facilitated, can be found on page 69.

B7 Re-election of Directors All Directors were subject to shareholder election or re-election at the 2016 AGM, as will be the case at the 2017 AGM.

C. Accountability

C1 Financial and business reporting The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report, set out on pages 1 to 57 (inclusive), provides information about the performance of the Group, the business model, the Group’s strategy and the risks and uncertainties relating to the Group’s future prospects.

C2 Risk management and internal control systems The Board sets the Group’s risk appetite and, via the RMAC, monitors and annually reviews the effectiveness of the Group’s systems of risk management and internal control.

C3 Role and responsibilities of the Risk Management and Audit Committee The Board has delegated a number of responsibilities to the RMAC. The principal activities of the RMAC are summarised in the Risk Management and Audit Committee report on pages 73 to 78 (inclusive).

D. Remuneration

D1 Levels and elements of remuneration The Remuneration Committee sets levels of remuneration which are designed to promote the long-term success of the Group and structures remuneration so as to link it to both corporate and individual performance, thereby aligning management’s interests with those of shareholders.

D2 Development of remuneration policy and packages Details of the activities of the Remuneration Committee can be found in the Directors’ Remuneration Report on pages 82 to 101 (inclusive).

E. Relations with shareholders

E1 Shareholder engagement and dialogue The Board takes an active role in engaging with shareholders. The Board particularly values opportunities to meet with shareholders and the Chairman ensures that the Board is kept informed about shareholders’ views. Please see ‘Relations with shareholders’ on page 81.

E2 Constructive use of the AGM The AGM provides the Board with an important opportunity to meet with shareholders, who are invited to meet the Board following the formal business of the meeting.
Corporate Governance Statement

Leadership

Highlights
› Good progress against Vision 2020, with management challenged to continue to meet targets
› Open and challenging debate at Board meetings, on a wide variety of strategic, financial and operational issues
› Board members undertook a number of visible leadership tours to the Group’s sites
› Further reduction in the Group’s accident incidence rate

The Board
The Board is responsible for the effective leadership and the long-term success of the Group.

The Board has delegated certain of its responsibilities to the Board committees. The principal activities of each of these committees during the year are set out in their respective reports in this Annual Report*. The decisions which can only be made by the Board are clearly defined in the schedule of matters reserved for the Board. The full schedule of matters reserved for the Board is available on the Company’s website at www.kier.co.uk/corporategovernance.

* the paragraphs under the heading ‘The Remuneration Committee’ on page 101 are incorporated by reference into this Corporate Governance Statement.

The matters requiring Board approval include, amongst others:
› the Group’s strategy;
› mergers, acquisitions and disposals of a material size and nature;
› material changes to the Group’s structure and capital;
› the payment of dividends;
› the approval of material Group policies; and
› material contract tenders and material investments.

The Executive Directors have significant commercial, financial and operational experience of the markets and sectors within which the Group operates. The diverse range of skills and leadership experience of the Non-Executive Directors enables them to monitor the performance of, provide constructive challenge to and support the Executive Directors. Biographical details of each of the Directors are set out on pages 66 and 67.

Governance framework
The following chart provides details of the Board’s governance framework, together with those individuals who provide support to the Board committees:

Shareholders
Board
Accountable to shareholders and responsible for the long-term success of the Company

Committees
Nomination see page 70
Risk Management and Audit see page 73
Safety, Health and Environment see page 79
Remuneration see page 82

Group HR Director
(Chris Last)
Talent and Organisational Development Director
(Jan Atkinson)
Group Financial Controller
(Simon Martle)
Group Head of Risk and Internal Audit
(Clare Ball)
Group SHE Director
(John Edwards)
General Counsel and Company Secretary
(Hugh Raven)

Group Reward and Pensions Director
(Mark Bradshaw)
Board and committee meeting attendance

Board and committee meetings are typically held in London, Tempsford Hall or at one of the Group’s regional offices or sites. For example, the October 2016 meeting was held in Dubai and was followed by a site visit to two local projects.

The number of formal Board and committee meetings attended by each Director during the 2017 financial year is as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Board</th>
<th>Nomination Committee</th>
<th>Remuneration Committee</th>
<th>Risk Management and Audit Committee</th>
<th>Safety, Health and Environment Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justin Atkinson</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Constance Baroudel</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Kirsty Bashforth</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Nigel Brook</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Amanda Mellor¹</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>9</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Adam Walker</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>4</td>
<td>—</td>
</tr>
<tr>
<td>Phil White²</td>
<td>9</td>
<td>2</td>
<td>8</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>Nick Winser</td>
<td>9</td>
<td>8</td>
<td>8</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

The Board and its committees held a number of other meetings to discuss specific matters or issues during the year. Certain Executive Directors attended certain committee meetings; please see the respective committee reports in this Corporate Governance Statement for further details.

¹ Amanda Mellor retired from the Board with effect from 18 November 2016 and attended all Board and committee meetings which occurred prior to that date.

² Phil White did not attend Nomination Committee meetings where the principal purpose of the meeting was to consider the Chairman’s succession, but attended all other Nomination Committee meetings during the year (other than that held in June 2017, when he was absent due to a medical appointment).

Board composition

As at the date of this Annual Report, the Board comprises 11 Directors, of which six are Non-Executive Directors (including the Chairman) and five are Executive Directors.

During the 2017 financial year:

› Constance Baroudel was appointed as a Non-Executive Director with effect from 1 July 2016 and as Chair of the Remuneration Committee with effect from the conclusion of the AGM on 18 November 2016;

› Amanda Mellor retired from the Board, and as Chair of the Remuneration Committee, with effect from the conclusion of the AGM on 18 November 2016; and

› on 23 March 2017, we announced the appointment of Philip Cox as a Non-Executive Director and Chairman Designate with effect from 1 July 2017.

On 1 August 2017, we announced that Phil White would retire as Chairman on 31 August 2017 and that Philip Cox would take over the role of Chairman from 1 September 2017.

Details of the Board’s composition, tenure and gender balance (as at the date of this Annual Report) are as follows:
Corporate Governance Statement

Board of Directors

From left to right: Hugh Raven, Nigel Turner, Philip Cox CBE, Constance Baroudel, Haydn Mursell, Justin Atkinson

Philip Cox CBE (65)
Chairman
Tenure on Board: 2 months
Independent: Yes (on appointment)
Committee memberships:

Relevant skills and experience:
- A Fellow of the Institute of Chartered Accountants, having trained and qualified as a chartered accountant at a predecessor firm of PwC
- Substantial commercial, financial and operational experience
- Particular experience of the energy and power sectors, as the former Chief Executive of International Power and as the former Chairman of Global Power Generation
- Experienced in mergers and acquisitions and strategy development
- Significant experience on boards of listed companies in both executive and non-executive roles

Principal current external appointments:
- Chairman, Drax Group

Haydn Mursell (46)
Chief Executive
Tenure on Board: 6 years, 10 months
Independent: No
Tenure as Chief Executive: 3 years, 2 months
Committee memberships: None
Relevant skills and experience:
- A chartered accountant, having trained and qualified at KPMG in London
- Significant sector experience through previous senior finance roles at Balfour Beatty and Bovis Lend Lease
- Operational leadership experience gained through previous responsibility for the Property division
- Detailed knowledge of the Group gained through previous role as Finance Director
- Strong track record in mergers and acquisitions, both at Kier and in previous organisations

Principal current external appointments: None

Justin Atkinson (56)
Senior Independent Director
Tenure on Board: 1 year, 11 months
Independent: Yes
Committee memberships:

Relevant skills and experience:
- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- Formerly Chief Executive of Keller Group from 2004 to 2015
- Significant operational and financial experience, having also been Keller’s Finance Director and Chief Operating Officer
- In-depth knowledge of the construction sector, both in the UK and internationally

Principal current external appointments:
- Senior Independent Director and Chair of the Audit Committee of Fortherra
- Non-Executive Director of Sirius Real Estate
- A member of the Audit Committee of the National Trust

Constance Baroudel (43)
Non-Executive Director
Tenure on Board: 1 year, 2 months
Independent: Yes
Committee memberships:

Relevant skills and experience:
- Significant experience of accounting and financial matters through a number of senior management roles
- In-depth knowledge of the construction sector, both in the UK and internationally
- Recent experience of developing corporate strategy through her current role at First Group
- Previous experience as Chair of the Remuneration Committee at Synergy Health

Principal current external appointments:
- Group Director of Strategy and Operational Performance, First Group

Nigel Turner (52)
Executive Director – Developments, Property and Business Services
Tenure on Board: 2 years, 6 months
Independent: No
Committee memberships: None
Relevant skills and experience:
- A chartered surveyor and a member of the Royal Institution of Chartered Surveyors
- Detailed knowledge of the property development sector, in particular
- Significant commercial and transactional experience, having negotiated a large number of investments and other projects
- Detailed knowledge of the Group’s business units, in particular through their interaction with the Property division
- Experienced in dealing with lenders, joint venture partners and other key stakeholders

Principal current external appointments: None

Hugh Raven (45)
General Counsel and Company Secretary
Tenure as Company Secretary: 7 years, 5 months
Independent: n/a
Committee memberships: None
Relevant skills and experience:
- A solicitor, having qualified with Linklaters LLP and a former Partner of Eversheds LLP
- Significant experience of a wide variety of legal and regulatory issues, having advised a number of public and private companies
- Particular expertise in large corporate transactions, including capital raisings (debt and equity) and mergers and acquisitions
- Expertise in corporate governance matters and best practice

Principal current external appointments: None

Kier Group plc | Report and Accounts 2017
Chairman succession

Phil White retired as Chairman and from the Board on 31 August 2017. Philip Cox CBE was appointed to the Board on 1 July 2017 and became Chairman on 1 September 2017.

Nigel Brook (59)
Executive Director – Construction and Infrastructure Services

Tenure on Board: 2 years, 6 months
Independent: No
Committee memberships: None

Relevant skills and experience:
- A chartered quantity surveyor and a member of the Royal Institution of Chartered Surveyors
- Over 35 years' experience in the construction sector, having previously held roles at AMEC, Ballast and Miller Construction
- Significant experience in management and delivery of large and complex projects throughout the UK
- Strong track record of customer service and operational performance improvement
- Strong track record on health and safety matters

Principal current external appointments:
- None

Bev Dew (46)
Finance Director

Tenure on Board: 2 years, 8 months
Independent: No
Committee memberships: None

Relevant skills and experience:
- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- Twenty years’ experience in the construction industry, with previous senior finance roles at Balfour Beatty, Lendlease, Redrow and Invensys Rail
- Significant experience in finance and capital structures
- Strong track record in cost control, cash flow management and pension scheme risk management
- Recent experience of ERP and other systems implementation programmes

Principal current external appointments:
- None

Claudio Veritiero (44)
Executive Director – Group Strategy and Corporate Development

Tenure on Board: 2 years, 6 months
Independent: No
Committee memberships: None

Relevant skills and experience:
- Significant experience of a wide variety of corporate transactions during early part of career in investment banking at Rothschild
- Previous listed company board experience as an executive director of Speedy Hire
- Operational leadership experience within Kier through previous role as managing director of the Services division
- Strong record in mergers and acquisitions, both at Kier and in previous roles

Principal current external appointments:
- None

Kirsty Bashforth (47)
Non-Executive Director

Tenure on Board: 3 years
Independent: Yes
Committee memberships: None

Relevant skills and experience:
- In-depth global, commercial, safety and risk management and operational experience, following 24 years at BP
- Strong track record in group-wide change management and organisational effectiveness
- Founder and CEO of Quayfive, advising on organisational dynamics
- Wide range of experience in a variety of human capital areas, including engagement, diversity and ethical working practices

Principal current external appointments:
- None

Adam Walker (49)
Non-Executive Director

Tenure on Board: 1 year, 8 months
Independent: Yes
Committee memberships: None

Relevant skills and experience:
- A chartered accountant, having trained and qualified at a predecessor firm of Deloitte
- A wealth of experience in financial matters, having been a finance director at three listed companies
- Operational experience through his former role as Chief Executive of GKN Land Systems
- Detailed knowledge of systems of risk management and internal control, obtained through previous and current executive roles

Principal current external appointments:
- Group Finance Director of GKN

Nick Winser CBE (57)
Non-Executive Director

Tenure on Board: 8 years, 6 months
Independent: Yes
Committee memberships: None

Relevant skills and experience:
- A chartered engineer and a Fellow of the Royal Academy of Engineering
- Significant experience of the energy sector, principally through his former role as a member of the board of directors of National Grid from 2003 to 2014
- Experienced in dealing with regulators and Government
- A strong track record on health and safety and risk management through his role with National Grid

Principal current external appointments:
- Chairman of the Energy Systems Catapult
- President of the Institution of Engineering and Technology
- Chairman of the Power Academy
- Chair of the MS Society
Corporate Governance Statement

Effectiveness

Highlights

› Completion of Constance Baroudel’s induction
› Good progress made in relation to Philip Cox’s induction
› Completion of action plan following the 2016 Board evaluation

Information and support

The Board is provided with regular and timely information on the Group’s operational and financial performance, together with reports on trading, health and safety, performance against the Group’s strategy and other matters.

The Company Secretary is the secretary to the Board and each of its committees. Prior to each Board or Committee meeting, the Company Secretary ensures that the relevant papers are made available, via a secure electronic portal, sufficiently in advance of the meeting. All Directors have access to the services of the Company Secretary and may take independent professional advice at the expense of the Company.

Time commitment

The Executive Directors may serve on other boards of directors, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company.

The Nomination Committee remains satisfied that all Non-Executive Directors have sufficient time to meet their commitments to the Company. Philip Cox’s other commitments were disclosed to the Board before his appointment as Chairman Designate.

The major commitments of the Directors are outlined on pages 66 and 67.

Re-election of Directors

As it is the first AGM since his appointment, a resolution will be proposed to elect Philip Cox as a Director at the AGM on 17 November 2017. All other Directors will offer themselves for re-election at the AGM.

The Board considers that each of the Non-Executive Directors is independent. In March 2018, Nick Winser will have served as a Director for nine years, having been appointed in March 2009. The Board remains satisfied that Nick continues to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect his ability to exercise independent judgement or to act in the best interests of the Company. The Board also considers that Nick continues to play an important role as the Chairman of the SHE Committee and that his experience will support the transition to the new Chairman. The Board therefore considers it appropriate to propose Nick for re-election at the AGM.

Ongoing training and development

A programme of courses is made available to the Directors, who are encouraged to attend courses which they consider to be of relevance to their roles.

The training which was made available to the Board during the year included seminars or presentations relating to:

› board effectiveness
› corporate governance
› risk management
› cyber security
› the EU Market Abuse Regulation.

2016 Board evaluation – progress against action plan

The 2016 Board evaluation highlighted a number of areas of focus for the Board in 2017. A summary of progress against these areas (which was assessed in the 2017 evaluation; please see page 69) is as follows:

<table>
<thead>
<tr>
<th>Area of focus</th>
<th>Specific action</th>
<th>Progress made</th>
</tr>
</thead>
<tbody>
<tr>
<td>Succession planning</td>
<td>Review of Executive Director succession plan</td>
<td>Formal reviews of the plan took place at Nomination Committee meetings throughout the year</td>
</tr>
<tr>
<td>Remuneration Committee</td>
<td>Review of information provided to the Committee</td>
<td>Continuous assessment of the information provided; positive feedback received in 2017 evaluation</td>
</tr>
<tr>
<td>Risk management</td>
<td>Review of remuneration consultants</td>
<td>Following a tender process, Mercer was re-appointed</td>
</tr>
<tr>
<td>Review of material contracts</td>
<td>Continue to review the Group’s risk management framework</td>
<td>Ongoing; to be continued in the 2018 financial year</td>
</tr>
<tr>
<td></td>
<td>Review the respective roles of the Board and the RMAC in relation to the management of risk</td>
<td>The Board and the RMAC formally agreed a schedule setting out their respective roles</td>
</tr>
<tr>
<td></td>
<td>Agree criteria for material contracts and tenders to be reviewed by the Board</td>
<td>A schedule setting out the criteria was approved by the Board and included in the schedule of matters reserved for the Board</td>
</tr>
</tbody>
</table>
**2017 Board effectiveness review**

The 2017 Board effectiveness review was externally-facilitated by Judith Hardy of Aretai LLP. Neither Judith Hardy nor Aretai LLP has any other connections with the Company.

A summary of the process is as follows:

### Areas of focus

**Leadership**
- Operation of the Board and its committees
- The Board’s role in setting and monitoring progress against the Group’s strategy
- Relationships with senior management

**Remuneration**
- The effectiveness of the Remuneration Committee
- The process for determining the Group’s remuneration policy
- The link between executive remuneration and the long-term success of the Company

**Effectiveness**
- Decision-making
- Board culture, composition and succession planning
- Meetings and Board administration

**Accountability**
- The Board’s role in overseeing the Group’s corporate reporting
- The effectiveness of the RMAC
- The reporting of material issues to the Board

**Relations with shareholders**
- The effectiveness of the Group’s IR programme
- The effectiveness of the AGM and other set-piece communications
- The quality and frequency of engagement with shareholders

### Process

**Interviews with each of the Directors and other key individuals (including external advisers)**
(April – May 2017)

**A review of Board and committee papers and other materials**
(May 2017)

**Attendance and observation at Board and committee meetings**
(May 2017)

**Written report presented to the Board**
(June 2017)

**Action plan agreed by the Board**
(August 2017)

### Conclusions

The review confirmed that, although there had been significant changes to the Board since the last externally-facilitated review in 2014, good progress had been made since then and, overall, the Board was effective, with a strong mix of skills. The review highlighted the Board’s key strengths and made recommendations as to how the Board could continue to develop them. A summary of the feedback and the principal areas of focus for 2018 is as follows:

<table>
<thead>
<tr>
<th>Key strengths</th>
<th>Principal areas of focus for 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly articulated strategy</td>
<td>Comprehensive review of progress against the strategy</td>
</tr>
<tr>
<td>Ambitious executive team</td>
<td>Promote regular and effective interaction between the Executive and Non-Executive Directors</td>
</tr>
<tr>
<td>Strong mix of Non-Executive Director skills and experience</td>
<td>Under a new Chairman, clarify the priorities of the Nomination Committee with respect to the skills, knowledge, experience and diversity of the Board</td>
</tr>
<tr>
<td>Constructive and challenging Board debates on a wide range of issues</td>
<td>Balance the Board discussion between operational and financial matters and strategic themes</td>
</tr>
<tr>
<td>A clear focus on effective risk management</td>
<td>Oversee the continuous review of the Group’s risk management framework</td>
</tr>
</tbody>
</table>
Dear shareholder

Following Phil White’s retirement as the Chair of the Committee, I am pleased to present the Nomination Committee report, which provides a summary of the Committee’s activities during 2017.

Committee performance evaluation
2017 – progress against 2016 evaluation
The 2016 Board evaluation identified:

› a need for regular reviews of the Executive Director succession plan; and
› the commencement of the Chairman’s succession process as being the two key areas of focus for the Committee in the 2017 financial year. The 2017 Board evaluation process confirmed that the Committee had made good progress with respect to the Executive Director succession plan and the Committee oversaw the appointment of a new Chairman during the year.

2018 – principal areas of focus
Following the 2017 Board evaluation, the Committee’s principal areas of focus for the 2018 financial year include:

› clarifying the Committee’s immediate priorities, following the appointment of a new Chairman; and
› reviewing the skills, knowledge, experience and diversity of the Board.

Diversity
As a board, we recognise the benefits of diversity. Diversity of skills, background, knowledge, experience and gender, amongst a number of other factors, are and will continue to be taken into consideration when new appointments to the Board are made. All Board appointments are and will continue to be made on merit. The Committee notes the recommendations in the five-year review of Lord Davies’ Report (October 2015) and the Hampton-Alexander Review (November 2016), one of which is that there should be a minimum representation of women on FTSE350 company boards of 33% by 2020. The size of the Board in recent years, amongst other factors, has made this challenging to achieve. Gender diversity will, however, remain an important consideration when reviewing the Board’s future composition.
Principal activities – 2017 financial year
The Committee’s two principal activities during the year were overseeing the Chairman’s succession and reviewing the Executive Director succession plan. In addition, the Committee oversaw Constance Baroudel’s induction to the Board (please see page 68).

Chairman’s succession
The process for identifying and appointing a successor to Phil White as Chairman was led by the Senior Independent Director, Justin Atkinson. The Committee appointed Korn Ferry (which has no other connection with the Company) to assist it in the process. Phil White did not attend any of the Committee’s meetings at which the process was discussed and was not involved in the selection or appointment of his successor.

The key elements of the role profile for the new Chairman included:

- strong experience of overseeing the implementation of strategy;
- a familiarity with tight margin business environments and the associated risks; and
- an ability to manage multiple stakeholders effectively.

A summary of the process is as follows:

<table>
<thead>
<tr>
<th>Action</th>
<th>Why?</th>
<th>Progress</th>
<th>Next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Using business psychologists (Deloitte), assessment of the Executive Committee (ExCo), senior management and selected other individuals</td>
<td>To obtain a consistent and objective assessment of the strengths, development areas and potential of individuals</td>
<td>Approximately 100 individuals have been assessed</td>
<td>Assessments to be conducted on selected other individuals on a case-by-case basis</td>
</tr>
<tr>
<td>ExCo members and others drafted development plans</td>
<td>To provide a framework for continuing personal development</td>
<td>Reviews of progress against plans conducted with ExCo members</td>
<td>ExCo members to share aspects of their plans with Kier leaders. Others will be challenged to deliver agreed actions</td>
</tr>
<tr>
<td>First ‘fast potential’ leadership talent cohort (‘Accelerate’) launched</td>
<td>To provide a dedicated, focused development programme for those identified as having ‘fast potential’ as leaders</td>
<td>See ‘Action’</td>
<td>Members of first cohort to report back on progress; potential future candidates to be identified</td>
</tr>
<tr>
<td>Appointment of ExCo sponsor for balanced business agenda – Claudio Veritiero (Group Strategy and Corporate Development Director)</td>
<td>To drive the ExCo’s strategy for tangible action to increase diversity throughout the Group</td>
<td>ExCo oversight of senior level vacancies; continued targeted action on hiring and promotion; and increased focus on mentoring and targeted development for female talent</td>
<td>Continue to focus on the steps highlighted under ‘Progress’</td>
</tr>
<tr>
<td>Developing ‘early careers opportunities’ for talent below Accelerate level</td>
<td>To broaden the experience of talent at the early stage of careers</td>
<td>Actions include internal secondments; membership of the CBI Leadership Programme; and media and IR skills training</td>
<td>Continue to focus on the steps highlighted under ‘Progress’</td>
</tr>
</tbody>
</table>

Conclusion
I will be available to answer any questions about the Committee, our work and how we operate at the AGM on 17 November 2017.

Philip Cox CBE
Chair of the Nomination Committee
20 September 2017
Business units produce year-end packs for central review (July and early August)

Central consolidation process and drafting the Group’s financial statements (August)

Audit close-out meetings, RMAC review and Board approval (August and September)

Highlights

› Successful establishment of a single finance shared services centre (the FSSC)
› Good progress with respect to the Group’s new ERP system
› Systems of risk management and internal controls assessed as being effective

For further information on how we manage risk, please turn to pages 34 to 36 (inclusive).

Systems of risk management and internal control

General
The Board is responsible for the Group’s systems of risk management and internal control, including those established to identify, manage and monitor risk. These systems are designed to mitigate, but cannot completely eliminate, the risks faced by the Group. The Board has delegated responsibility for overseeing the implementation of these systems to the RMAC.

The Group Head of Risk and Internal Audit, who has direct access to the RMAC and its Chair, reports to the RMAC on strategic risk issues and oversees the Group’s risk management framework. Working with the Group Head of Risk and Internal Audit, management is responsible for the identification and evaluation of the risks that apply to the Group’s business and operations, together with the design and implementation of controls which are designed to manage those risks. A summary of how the Group identifies and manages risk is set out on pages 34 to 36 (inclusive).

During the 2018 financial year, the Board and the RMAC will continue to oversee the review of the Group’s risk management framework, which is summarised on pages 34 and 35.

To support this framework, the Group has a ‘whistleblowing’ helpline which enables employees to raise concerns in confidence. Further information about the helpline is set out under ‘Systems of risk management and internal control – Whistleblowing arrangements’ in the Risk Management and Audit Committee report on page 74.

Effectiveness review
The Code requires that the Board conducts an annual review of the Group’s systems of risk management and internal control. The steps taken by the RMAC, on behalf of the Board, in reviewing these systems are described under ‘Systems of risk management and internal control – Effectiveness review’ in the Risk Management and Audit Committee report on page 74.

Financial reporting
The Group has clear policies and procedures to ensure the conformity, reliability and accuracy of financial reporting, including the process for preparing the Group’s interim and annual financial statements.

The Group’s financial reporting policies and procedures cover financial planning and reporting, preparation of financial information and the monitoring and control of capital expenditure.

The Group’s financial statements preparation process includes reviews at business unit, divisional and Group levels.

By way of example, a summary of the process for signing-off the 2017 financial statements is:

Business units produce year-end packs for central review (July and early August)

Central consolidation process and drafting the Group’s financial statements (August)

Audit close-out meetings, RMAC review and Board approval (August and September)

During the year, the Board oversaw:

› the establishment of the FSSC, based in Manchester; and
› significant progress with respect to the implementation of the Group’s new ERP system.

Both the FSSC and the new ERP system have delivered significant improvements to the Group’s financial reporting processes.

Assessment of principal risks
During the year, the Board conducted a review of the Group’s principal risks and uncertainties, together with its appetite with respect to each such risk. A summary of the review process is as follows:

Individual meetings with the ExCo to assess their risk appetite against the Group’s strategic priorities (January – March 2017)

ExCo meeting to agree a collective risk appetite with respect to these priorities (March 2017)

Tolerance range and measurement metrics agreed (April – May 2017)

ExCo identified specific risks relating to the business; please see ‘Principal risks and uncertainties’ on pages 37 to 41 (inclusive) (July and August 2017)

Board assessment of its risk appetite (August 2017)

The Board’s statement relating to its assessment of the Group’s principal risks and uncertainties is set out on page 62.

Board statements
The Board delegated the responsibility for conducting the work required for it to provide the ‘fair, balanced and understandable’, ‘going concern’ and ‘viability’ statements to the RMAC. Further details of the work carried out by the RMAC in support of these statements is set out in the Risk Management and Audit Committee report on pages 74 and 75. In conducting this work, the RMAC acts on behalf of the Board and its activities remain the responsibility of the Board.
“Effective systems of risk management and internal control are essential to support the Group’s continued growth and accountability to shareholders is based on fair, balanced and understandable reporting.”

Adam Walker
Chair

RMAC Committee members

Adam Walker (Chair)
Justin Atkinson
Constance Baroudel
Amanda Mellor

Kirsty Bashforth
Nick Winser

Amanda Mellor retired as a member of the Committee on 18 November 2016.

Allocation of time

- External audit and financial reporting
- Internal audit
- Risk management and internal controls
- Governance

Dear shareholder

I am pleased to present the Risk Management and Audit Committee report, which provides a summary of the Committee’s activities during the 2017 financial year.

Role

The role of the Committee includes:

- monitoring the Group’s financial reporting procedures and the external audit;
- examining the integrity of the Group’s financial statements and challenging significant financial reporting and other judgements;
- reviewing the adequacy and effectiveness of the Group’s systems of risk management and internal control;
- reviewing the Group’s whistleblowing arrangements;
- reviewing the effectiveness of the Group’s internal audit function, agreeing the list of audits to be conducted each year and reviewing the results of those audits; and
- testing the independence and objectivity of the external auditor, assessing its effectiveness and approving the provision of non-audit services.

The terms of reference for the Committee can be viewed on the Company’s website at www.kier.co.uk/corporategovernance.

Committee composition and meeting attendance

The names of the members of the Committee are set out above.

As a chartered accountant and the Finance Director of GKN plc, I am considered by the Board to have recent and relevant financial experience and competence in accounting and auditing. The Committee has competence relevant to the sectors in which the Group operates, for example:

- Justin Atkinson: a qualified accountant, has previous executive experience in the contracting sectors with Keller;
- Constance Baroudel: has experience of the risks associated with strategy implementation;
- Kirsty Bashforth: has particular experience of the risks relating to change management programmes; and
- Nick Winser: a qualified civil engineer, has significant experience in the contracting sector.

Please see ‘Board of Directors’ on pages 66 and 67 for further details of the Committee members’ experience.

The following were also in attendance at Committee meetings:

- the Finance Director;
- other members of the Board, when considered appropriate – for example, the Chairman and the Chief Executive attended the September 2016 and March 2017 meetings to consider the Group’s results and other Executive Directors attended meetings when key accounting judgements on contracts were discussed;
- the Group Financial Controller and representatives from PwC for external audit matters; and
- the Group Head of Risk and Internal Audit and representatives from KPMG for internal audit matters.

Outside the formal meetings, I met members of management (including the Finance Director), PwC and KPMG to discuss a number of matters relating to the operation of the Committee.

The secretary of the Committee is the Company Secretary (Hugh Raven).

The Committee met formally four times during the year; details of attendance at these meetings are set out on page 65.

Committee performance evaluation

2017 – progress against 2016 evaluation

The 2016 Board evaluation identified the following as key areas of focus for the Committee in the 2017 financial year:

- continuing to review the Group’s risk management framework; and
- agreeing the respective roles of the Board and the Committee with respect to the management of risk.

Following the appointment of a new Group Head of Risk and Internal Audit, good progress was made with respect to the review of the risk management framework, which will remain a principal area of focus for the Committee in 2018. The Board and Committee agreed their respective roles in relation to the management of risk.

2018 – principal areas of focus

The Committee will focus on:

- ensuring that the Group’s systems of risk management and internal control continue to support the Group’s growth; and
- challenging PwC to continue to audit the Group’s financial statements robustly.
Principal activities – 2017 financial year
The following matters were considered during the Committee meetings which took place during the year:

<table>
<thead>
<tr>
<th>Financial reporting</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-year results and announcement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Half-year results and announcement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Significant accounting judgements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Going concern statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Viability statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fair, balanced and understandable statement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Report</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>External audit</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management representation letter</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation of external auditor’s effectiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Re-appointment of external auditor</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-audit fees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-audit fee policy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External audit plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal audit</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
</tr>
</thead>
<tbody>
<tr>
<td>General update</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Evaluation of internal auditor’s effectiveness</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Approval of internal audit plan</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Risk management</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
</tr>
</thead>
<tbody>
<tr>
<td>General update</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Systems of risk management and internal control assessment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Other</th>
<th>Dec</th>
<th>Jan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whistleblowing and compliance update</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Review of terms of reference</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
requesting that certain key contributors to sections of the Annual Report (for example, Managing Directors and Finance Directors of business units) sign a declaration confirming the accuracy of the information provided;
• arranging for FutureValue (a corporate reporting consultancy) to review the Annual Report and for Mercer, the Company’s remuneration consultants, to review the Directors’ Remuneration Report;
• circulating drafts of the Annual Report to PwC, the Committee and the Board for review; and
• discussing material disclosure items at a meeting of the Committee held in September 2017.

The Committee discussed the ‘fair, balanced and understandable’ statement at its meeting in September 2017 and, having done so, recommended that the Board provide it in the form set out on page 62.

Going concern
The principal aspects of the review process conducted by the Committee and management to support the Board’s statement were:
• reviewing the Group’s available sources of funding and, in particular, testing the covenants and assessing the available headroom using a range of assumptions;
• reviewing the short, medium and long-term cash flow forecasts in various material downside scenarios;
• assessing the level of available bonding facilities, which are considered necessary to support the Group’s ability to tender and deliver future growth; and
• assessing the Group’s current and forecast activities, including its long-term contracts and order books, and those factors considered likely to affect its future performance and financial position.

The Committee discussed the going concern statement at its meeting in September 2017 and, having done so, recommended that the Board provide it in the form set out on page 62.

Viability statement
The Directors have chosen to consider the prospects of the Group over a three-year period ending 30 June 2020, as they consider it to be a period over which they are able to forecast the Group’s performance with reasonable certainty.

In particular:
• a number of programmes relating to the Group’s key construction projects, which are important factors in an assessment of the Group’s performance, operate over a three-year period;
• the visibility of the Group’s secured work and bidding opportunities can reasonably be assessed over a three-year period; and
• the KPIs contained in Vision 2020 cover a three-year period ending 30 June 2020.

The Committee’s assessment included a review of the potential impact of severe but plausible scenarios that could threaten the viability of the Group and the effectiveness of the potential mitigations that management believes would be available. These scenarios included a significant downturn in the property market, followed by a similar effect on the UK construction market, and a decline in the UK infrastructure market. The Committee discussed the viability statement at its meeting in September 2017 and, having done so, recommended that the Board provide it in the form set out on page 62.

2017 financial reporting
The audit
At its meetings in June and September 2017, the Committee discussed the 2017 audit process. The following is a summary of the key issues discussed by the Committee and PwC at these meetings:

<table>
<thead>
<tr>
<th>Meeting</th>
<th>Issue</th>
<th>Outcome/action taken by the Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>PwC’s audit plan</td>
<td>Challenged and agreed by the Committee</td>
</tr>
<tr>
<td></td>
<td>PwC’s audit risk assessment</td>
<td>Discussed with PwC (including the approach to identified risks)</td>
</tr>
<tr>
<td></td>
<td>Materiality level for the audit</td>
<td>Agreed with PwC (at a similar level to 2016)</td>
</tr>
<tr>
<td></td>
<td>PwC’s resources</td>
<td>Reviewed and discussed with PwC</td>
</tr>
<tr>
<td></td>
<td>Audit fee and terms of engagement</td>
<td>Reviewed, challenged and approved by the Committee</td>
</tr>
<tr>
<td>September</td>
<td>Review of PwC’s audit plan</td>
<td>PwC confirmed no material changes made to agreed plan</td>
</tr>
<tr>
<td></td>
<td>Audit findings, significant issues and other accounting judgements</td>
<td>Discussed with PwC and management</td>
</tr>
<tr>
<td></td>
<td>Management representation letter</td>
<td>Reviewed and approved by the Committee</td>
</tr>
<tr>
<td></td>
<td>PwC’s independence and objectivity and quality control procedures</td>
<td>Independence and objectivity confirmed; quality control procedures reviewed by the Committee</td>
</tr>
</tbody>
</table>

During the audit, I met PwC’s lead audit partner to discuss the process. Following the conclusion of the September meeting, the Committee met PwC without management being present: no significant issues, other than those discussed at the Committee meeting, were raised.
**Significant issues and other accounting judgements**

The Committee is responsible for reviewing the appropriateness of management’s judgements, assumptions and estimates in preparing the financial statements. Following discussions with management and PwC, the Committee also determined that the significant issues and other accounting judgements relating to the 2017 financial statements are as shown in the table below.

<table>
<thead>
<tr>
<th>Significant Issues and accounting judgements</th>
<th>Action undertaken by the RMAC/Board</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Valuation of land and properties</strong></td>
<td>The Group holds inventory within the Residential and Property divisions, primarily comprising land held for development, for which construction has not started, and work-in-progress. The carrying value of the inventory is based on the Group’s current estimates of the sales prices and building costs. Inventory in these divisions is stated at the lower of cost and net realisable value (i.e. the forecast selling price, less the remaining costs to build and sell). An assessment of the net realisable value was carried out as at 30 June 2017 and requires management to estimate forecast selling prices and build costs, which may require significant judgement. One of the key elements of the systems of risk management and internal control within these divisions is the development appraisals prepared by management, using a number of internal and external reference points. Accordingly, PwC challenged these appraisals in a number of ways, including: (in Residential) reviewing management’s expected build costs and challenging forecast sales prices and (in Property) reconciling the development appraisals to the work-in-progress summary, interviewing those responsible for each development and, where applicable, obtaining independent evidence to support the rental and yield rates adopted in the appraisal. PwC’s conclusion, following these steps, is set out in the independent auditor’s report on page 106.</td>
</tr>
<tr>
<td><strong>Accounting for long-term contracts – including profit recognition, work-in-progress and provisioning</strong></td>
<td>The Group has significant long-term contracts in the Construction and Services divisions, in particular. Profit is recognised according to the stage of completion of the contract. The assessment of profit requires the exercise of judgement when preparing estimates of the forecast costs and revenues of a contract. A number of factors are relevant to this assessment, including, in particular, the expected recovery of costs. During the year, the Board reviewed and considered management’s latest assessment of the forecast costs of, and revenues from, certain long-term contracts, particularly those in the Infrastructure and International businesses – for example, the Group’s projects for MTR in Hong Kong and in St. Kitts. The Committee identified accounting for long-term contracts as one of the principal matters for review by PwC in the 2017 audit. As part of its work, PwC reviewed the forecast ‘end life’ positions, challenging the judgements applied by management (in particular, the key assumptions on which they are based), and reviewed correspondence and contracts to assess whether these support the judgements. The Committee discussed management’s assessment of such contracts with PwC and management when considering the interim and year-end financial statements at its meetings in March and September 2017, respectively. PwC’s conclusion is set out in the independent auditor’s report on page 107. During the year, the Board also obtained advice from the Company’s corporate brokers with respect to such long-term contracts.</td>
</tr>
<tr>
<td><strong>Accounting for adjustments to underlying profit</strong></td>
<td>Management has separately disclosed certain non-underlying items, in addition to presenting the underlying results of the Group. Details of those items are set out in note 4 to the consolidated financial statements. The Committee identified the accounting treatment of non-underlying items as one of the principal matters for review by PwC in the 2017 audit. PwC challenged management as to the appropriateness of the classification of each item, focusing on those items which PwC considered to be more judgemental in nature than others (which included the contract loss elements of the Caribbean and Hong Kong exit costs). PwC’s conclusion as to the presentation of the non-underlying items is set out in the independent auditor’s report on page 108. During the year, the Board also obtained advice from the Company’s corporate brokers with respect to such non-underlying items.</td>
</tr>
</tbody>
</table>
Internal audit

Internal audits – 2017 financial year
During the year, the Committee monitored progress against the 2017 internal audit plan, which was approved by the Committee at its June 2016 meeting. Results from each follow-up audit were discussed by the Committee, together with actions taken by management.

KPMG (the co-sourced internal auditor) completed 15 internal audits during the year. Examples of these audits include:

- ERP – payroll process implementation
- safety information reporting
- subcontractor procurement
- tax governance
- tender management and pricing
- treasury management

Before each audit, KPMG agreed the scope of review, timetable and resources required with management. KPMG also provided regular updates to management and members of the Committee on the status of ongoing audits.

Internal audit function effectiveness
To assess the effectiveness of the internal audit function, members of the Committee and senior management completed a detailed questionnaire addressing various aspects of both the internal audit function and KPMG’s performance. The feedback was then reviewed by the Committee at its meeting in December 2016. During the year, a new Group Head of Risk and Internal Audit was appointed, to work alongside and manage KPMG with respect to the delivery of the internal audit plan.

The Committee concluded that, overall, the internal audit function was operating effectively. A summary of the results of the review is as follows:

Strengths

- Dedicated and focused team
- Good understanding of the business
- Clear audit reports, challenging the business to manage risk effectively

Future areas of focus

- Continue to ensure effective communication of material issues to the Committee
- Ensure appropriate engagement with the businesses
- Continue to close-out identified issues promptly

Internal audits – 2018 financial year
At its June 2017 meeting, the Committee approved the 2018 internal audit plan. Examples of audits planned for the 2018 financial year include:

- business continuity process compliance
- contract management governance
- Group procurement function
- HR processes
- joint venture reporting
- work-in-progress and debt management.

External audit

General
The Committee is responsible for overseeing the relationship with the external auditor, its effectiveness and the audit process, by:

- approving the annual audit plan;
- monitoring the external audit process;
- making recommendations to the Board in relation to the auditor’s appointment, re-appointment and removal;
- approving its remuneration and terms of engagement;
- reviewing and monitoring its independence and objectivity; and
- developing and implementing a non-audit services policy.

External auditor effectiveness
During the year, the Committee conducted an evaluation of PwC’s performance (with respect to the 2016 audit). A questionnaire was issued to key stakeholders, including members of the Committee and those involved in the 2016 audit. Feedback from the evaluation was discussed by the Committee at its meeting in December 2016 and was subsequently provided to PwC so that it could be taken into account when planning the 2017 audit.
Corporate Governance Statement
Risk Management and Audit Committee report continued

The Committee concluded that, overall, PwC had operated effectively and had provided an appropriate level of challenge during the 2016 audit. A summary of the results of the review is as follows:

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Future areas of focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>› The audit plan was thorough and detailed, focusing on the key issues</td>
<td>› Refreshing communication protocols so as to expedite the audit process</td>
</tr>
<tr>
<td>› Collaborative, but challenging, approach taken by the audit team when engaging with the business</td>
<td>› So far as possible, maintaining continuity of audit team members</td>
</tr>
<tr>
<td>› Significant technical awareness and expertise evident throughout the audit team</td>
<td>› Ensuring a depth of industry-specific knowledge across the audit team</td>
</tr>
</tbody>
</table>

The Committee will formally assess PwC’s performance in relation to the 2017 audit during the 2018 financial year. However, the Committee discussed its preliminary views at its meeting in September 2017 and concluded that, overall, it remained satisfied with PwC’s performance. PwC has indicated its willingness to continue in office and the Committee has recommended PwC’s re-appointment to the Board. A resolution to re-appoint PwC as the external auditor will therefore be proposed at the 2017 AGM.

External auditor independence and non-audit services
During the year, PwC provided certain non-audit services to the Group. The Committee monitors the level and scope of these services to ensure that the associated fees are not of a level that would affect PwC’s independence and objectivity.

In March 2017, the Committee approved a revised non-audit services policy, which reflects the FRC’s revised Ethical Standards for Auditors. The policy provides that the Committee expects that the level of non-audit fees in any one financial year will not exceed 15% of the audit fee payable in relation to the previous year.

The limits of authority within the policy are:

<table>
<thead>
<tr>
<th>Fees</th>
<th>Approval required</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to £10,000</td>
<td>The Finance Director may authorise fees on individual assignments (not exceeding £50,000 in any financial year).</td>
</tr>
<tr>
<td>Above £10,000</td>
<td>Must be approved in advance by the Committee. The Chair of the Committee may provide urgent approval (subject to the subsequent reporting of the approval to the Committee).</td>
</tr>
</tbody>
</table>

Non-audit fees incurred during the year were £85,000, which is approximately 7% of the 2017 audit fee of £1,266,000. The non-audit fees related to sustainability reporting assurance (£50,000) and the 2017 interim financial statements review (£35,000). The Committee concluded that PwC’s independence and objectivity was not compromised by it providing these services and that, as a result of its knowledge of the Group and its financial statements, it was in the Group’s interests to engage PwC to do so.

PwC first audited the Group’s financial statements in the 2015 financial year. The lead audit partner since that date has been Jonathan Hook. PwC requires the lead audit partner to change after five years. As part of the 2017 audit, PwC confirmed that it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account, and having considered the steps taken by PwC to preserve its independence, the Committee concluded that PwC continues to demonstrate appropriate independence and objectivity.

Conclusion
I will be available to answer any questions about the Committee, our work and how we operate at the AGM on 17 November 2017.

Adam Walker
Chair of the Risk Management and Audit Committee
20 September 2017
Dear shareholder

I am pleased to present the Safety, Health and Environment Committee report, which provides a summary of the Committee’s activities during the 2017 financial year.

The Group operates on several hundred sites at any one time, both throughout the UK and internationally; the Group’s projects can be complex and are not without risk. As a Committee, we oversee the continuous improvement of the management of safety, health and environment (SHE) risks in the workplace.

I am therefore pleased to be able to report, overall, a strong SHE performance in 2017, with a significant reduction in the Group’s reportable accident incidence rate (AIR) by 38%, as compared to the prior year, and good progress with respect to reducing the Group’s energy use. Please see page 22 for details of progress made against the Group’s strategic priority to operate a safe and sustainable business.

Committee composition and meeting attendance

The names of the members of the Committee are set out above. The Chief Executive, the Executive Director – Construction and Infrastructure Services, the Executive Director – Developments, Property and Business Services and the Group SHE Director are expected to attend meetings, unless they are notified to the contrary.

The secretary of the Committee is the Company Secretary (Hugh Raven).

The Committee met formally four times during the year; details of attendance at these meetings are set out on page 65.

Committee performance evaluation

2017 – progress against 2016 evaluation

The 2016 Board evaluation identified:

› an increased focus on environmental matters;
› an increased focus on health and wellbeing; and
› the need to maximise the benefit of the visible leadership tours as some of the key areas of focus for the Committee in the 2017 financial year. The 2017 Board evaluation process confirmed that good progress had been made in each of these areas and that, overall, the Committee’s performance had been effective during the year.

2018 – principal areas of focus

Following the 2017 evaluation, the Committee’s principal areas of focus for the 2018 financial year include:

› maintaining a focus on key strategic issues, whilst challenging management with respect to operational issues; and
› ensuring sufficient time is set aside to consider environmental and health and wellbeing matters.

“The health and safety of all those who visit and work at the Group’s sites, together with the protection of the environment, are key priorities for Kier.”

Nick Winser
Chair

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› maintaining a focus on key strategic issues, whilst challenging management with respect to operational issues; and
› ensuring sufficient time is set aside to consider environmental and health and wellbeing matters.
Principal activities – 2017 financial year
A summary of the safety, health and environment matters considered by the Committee during the year is as follows:

Safety
Key incident reviews
At each meeting during the year, the Committee reviewed key safety incidents and received presentations on certain of those incidents from senior management. In addition, the Committee monitored the close-out of all actions arising from such incidents and challenged management to ensure the effective communication of any learning points across the Group.

Regulatory investigations
From time to time, the Health and Safety Executive (the HSE) will conduct investigations into incidents which occur on the Group’s sites. Some of these investigations may result in court proceedings being taken against the Group and, as a committee, we work with management to ensure that its approach to the conduct of these proceedings is appropriate. During the year, the Committee oversaw the management of the prosecution brought against the BFK joint venture site following a fatality at the Farrington section of the Crossrail project in March 2014 and two other incidents at the Bond Street section in January 2015, which resulted in a fine of £1.065m for the joint venture. In addition, the Committee also monitored management’s approach to the HSE’s investigation into a fatality which took place in May 2014 at Lidgate and the court proceedings relating to a trench collapse at a site in Holbeach (which occurred in March 2012), which resulted in a £1.5m fine in December 2016.

SHE strategy
During the year, the Committee reviewed progress against the Group’s SHE strategic business plan. Performance is measured against an agreed set of KPIs, which are designed to support the Group’s strategic priority of operating a safe and sustainable business. I am pleased to report that, overall, significant progress was made against these targets. See page 22 for further information.

SHE campaigns
A series of campaigns relating to topical SHE matters were run across the Group throughout the year. The Committee challenged management on the effectiveness of these campaigns, which included:
- a focus on the prevention of slips, trips and falls;
- a reduction in the number of buried services strikes; and
- a focus on key site safety matters, including identifying hazards, working around plant and promoting appropriate safety behaviours.

Innovation
The Board, and its committees, supports management’s focus on innovation throughout the business. The Committee has challenged management to focus on the use of innovation to manage the safety risks relevant to the Group. During the year, the Committee oversaw:
- the launch of a central, Group-wide portal as a hub for safety risk management documents and advice; and
- the development of the ‘Engage to Change’ App, which provides employees with an efficient way to give feedback on SHE practices within the Group.

Visible leadership tours
All members of the Committee are required to conduct ‘visible leadership tours’ across the Group’s sites during the year and to report on those visits at subsequent meetings. The Committee also monitored visits which were undertaken by senior management throughout the year. The tours are well-received by the business, informative for management and have a measurable positive effect on the Group’s safety statistics.

Health and wellbeing
During the year, the Committee continued to monitor the Group’s health and wellbeing programme, which aims to raise awareness of common health issues. The programme included a focus on mental health, blood pressure, heart awareness and diabetes and the use of a ‘health kiosk’ (which tested staff on core health issues and visited various offices and sites around the country).

The Committee also oversaw management’s strategic review of the provision of occupational health (OH) services within the Group, which resulted in the transfer of the provision of OH services to an external provider.

Environmental matters
The Group’s environmental performance is measured against a set of KPIs, including with respect to carbon emissions, water usage and waste management. During the year, the Committee reviewed the Group’s performance against these KPIs and was pleased to note that good progress was being made. The Committee also reviewed the statistics relating to the reporting of environmental incidents (for example, effluent leakages or spillages and noise or dust pollution) and challenged management to take appropriate action following such incidents. During the year, the Committee approved the ‘Kier Energy Strategy – 30 by 30’, which aims to reduce the Group’s energy usage by 30% by 2030. Further details can be found on pages 30 to 33 (inclusive).

Conclusion
I will be available to answer any questions you may have about the Committee, our work and how we operate at the AGM on 17 November 2017.

Nick Winser
Chair of the Safety, Health and Environment Committee
20 September 2017
Relations with shareholders

### Highlights
- A successful Capital Markets Day in June 2017, with a focus on the Property division
- Consultation with shareholders on the 2017 remuneration policy
- Meetings with shareholders on sustainability matters

For further information on how we engage with shareholders and other stakeholders, please turn to pages 30 to 33 (inclusive).

### Introduction
The Board welcomes the opportunity to engage with shareholders and to understand their views on matters of importance to them.

The Chief Executive, Finance Director and other members of the Board meet regularly with institutional shareholders and analysts to discuss the performance of the Group and to understand their views about Kier.

The following table sets out details of the key meetings and engagement with shareholders during the year:

<table>
<thead>
<tr>
<th>2016</th>
<th></th>
<th>2017</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>September</td>
<td>2016 year-end results released</td>
<td>October</td>
<td>Investor site visit to Mersey Gateway project</td>
</tr>
<tr>
<td></td>
<td>UK investor roadshows</td>
<td>November</td>
<td>Annual General Meeting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Investor and analyst seminar, focusing on Kier Living</td>
</tr>
<tr>
<td>January</td>
<td>Trading update and subsequent discussions with analysts</td>
<td>March</td>
<td>2017 interim results released</td>
</tr>
<tr>
<td></td>
<td>UK investor roadshows</td>
<td>May</td>
<td>Commencement of shareholder consultation on executive remuneration</td>
</tr>
<tr>
<td>June</td>
<td>Shareholder meetings to discuss Kier’s strategy for a sustainable business</td>
<td>June</td>
<td>Trading update</td>
</tr>
<tr>
<td></td>
<td>Capital Markets Day and site visit to Reading Gateway, focusing on the Property division</td>
<td></td>
<td></td>
</tr>
<tr>
<td>September</td>
<td>2017 year-end results released</td>
<td>UK investor roadshows</td>
<td></td>
</tr>
</tbody>
</table>

### Key engagement issues
- **Strategy** – the Chief Executive and the Finance Director met major shareholders following the preliminary announcement of the Group’s 2016 results and the announcement of the Group’s 2017 interim results to discuss a number of matters, including progress against the Group’s strategy. Following these announcements, analysts’ notes were circulated to the Board;
- **Governance** – the Chairman and the Senior Independent Director met major shareholders to discuss, amongst other matters, the Chairman’s succession, remuneration and risk management. Following these meetings, feedback was provided to the Board;
- **Remuneration** – the Chair of the Remuneration Committee led the engagement with shareholders with respect to the Group’s new remuneration policy and remuneration for the 2018 financial year; and
- **Sustainability** – in June 2017, we met a number of major shareholders to review our strategy for a sustainable business, demonstrating how this strategy will create value for Kier and its shareholders. Meetings with individual shareholders were held during the year to discuss sustainability matters.

### Website – IR section
The investor relations section of the Company’s website can be found at www.kier.co.uk/investor-relations. It provides information on the Company’s financial calendar, dividends, annual general meetings and other areas of interest to shareholders. Copies of Annual Reports and investor presentations are available to view and download. Shareholders can also register to receive ‘news alerts’ relating to the Group’s activities.

### Annual general meetings
The Board uses the AGM as an opportunity to communicate with shareholders, who are invited to attend, ask questions and meet Directors prior to, and after, the formal proceedings.

The Chairs of the Board committees are present at each AGM to answer questions on the work of their committees.

The results of the voting at the 2016 AGM were:

<table>
<thead>
<tr>
<th>Resolution</th>
<th>For Percentage of votes cast&lt;sup&gt;1,2&lt;/sup&gt;</th>
<th>Against Percentage of votes cast&lt;sup&gt;2&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Receive Annual Report and Accounts</td>
<td>99.90</td>
</tr>
<tr>
<td>2</td>
<td>Remuneration Report</td>
<td>89.99</td>
</tr>
<tr>
<td>3</td>
<td>Declare final dividend</td>
<td>99.88</td>
</tr>
<tr>
<td>4–14</td>
<td>Appointment of Directors</td>
<td>97.92–99.99</td>
</tr>
<tr>
<td>15</td>
<td>Appointment of auditor</td>
<td>99.98</td>
</tr>
<tr>
<td>16</td>
<td>Auditor’s remuneration</td>
<td>99.99</td>
</tr>
<tr>
<td>17</td>
<td>Authority to allot shares</td>
<td>99.72</td>
</tr>
<tr>
<td>18</td>
<td>Disapply pre-emption rights (general)</td>
<td>98.68</td>
</tr>
<tr>
<td>19</td>
<td>Disapply pre-emption rights (acquisition)</td>
<td>95.30</td>
</tr>
<tr>
<td>20</td>
<td>Meetings on 14 days’ notice</td>
<td>96.07</td>
</tr>
</tbody>
</table>

<sup>1</sup> Includes those votes for which discretion was given to the Chairman.

<sup>2</sup> Does not include votes withheld.
Dear shareholder

On behalf of the Board, I am pleased to present the Directors’ Remuneration Report for 2017.

This Directors’ Remuneration Report is divided into three principal sections:

› this annual statement, which provides the context for the Committee’s decisions during the year and summarises the key points from the remainder of the report;
› the new remuneration policy; and
› the annual report on remuneration, which provides details of remuneration paid to the Board during the 2017 financial year.

Approach to remuneration at Kier

Our remuneration policy aims to:

› incentivise and reward the delivery of strategy and performance: over two-thirds of the Executive Directors’ maximum remuneration opportunity is variable and relates to the Group’s performance against its strategic objectives (as set out on pages 22 to 29 (inclusive));
› align Executive Directors’ interests with those of shareholders: approximately half of the Executive Directors’ maximum remuneration opportunity is satisfied in shares and the Executive Directors are encouraged to build up shareholdings in the Company of at least two years’ base salary over a period of up to five years, promoting a culture of long-term stewardship; and
› attract and retain talent: the Committee considers practices in comparable businesses so as to ensure that remuneration at Kier remains competitive, enabling it to attract and retain talented individuals, but without paying more than is necessary.

Remuneration framework

There are three elements to the framework for the Executive Directors’ remuneration:

› fixed element: comprises base salary, taxable benefits (private health insurance and a company car or car allowance) and a pension;

The new remuneration policy is aligned to Kier’s Vision 2020 and will continue to incentivise management to drive the performance of the Group for the long-term benefit of shareholders.”

Constance Baroudel
Chair

Remuneration Committee members

Constance Baroudel (Chair)
Justin Atkinson
Kirsty Bashforth
Philip Cox

Amanda Mellor retired as the Chair of the Committee on 18 November 2016. Phil White retired as a member of the Committee on 31 August 2017.

New remuneration policy

The Committee consulted with major shareholders in relation to the proposed new remuneration policy, which is set out on pages 86 to 93 (inclusive). The policy is subject to shareholder approval every three years and, therefore, will be voted on at the Annual General Meeting on 17 November 2017. The Committee considers that the current remuneration policy has served Kier well over the last three years; shareholders will, therefore, note that the changes to the existing policy are generally of an evolutionary nature, with the Committee having taken into account recent developments in corporate governance and best practice. The changes to the 2014 policy are set out in the future policy table on pages 86 to 89 (inclusive).

Implementation of the new remuneration policy in 2018

Details of the implementation of the new policy in 2018 are set out in ‘Remuneration at a glance’ on page 84. The Committee consulted with shareholders with respect to both the new policy and its implementation in 2018. A summary of the Executive Directors’ remuneration in 2018 is:

Base salaries

The Executive Directors (other than the Chief Executive) received a 3% increase in base salary with effect from 1 July 2017, in line with the average increases awarded to employees. The Chief Executive received a 5% increase in base salary, in line with the increases awarded to high performers and reflecting his progression in the role, leading a business of increasing scale and complexity, and the Group’s good performance in challenging market conditions. The Committee is satisfied that the Executive Directors’ base salaries are in line with the median of those paid at peer group companies.

short-term element: an annual bonus, which incentivises and rewards the delivery of a balanced selection of financial and non-financial targets in a financial year, with payments being satisfied in cash (2/3), which will now be subject to clawback, and shares (1/3), which are deferred for three years; and

long-term element: the LTIP incentivises financial performance over a three-year period, promoting long-term sustainable value creation for shareholders. Vested shares will now be subject to a two-year holding period.

Constance Baroudel
Chair

Allocation of time

- New remuneration policy and 2018 remuneration
- Bonuses – 2016, 2017 and 2018
- LTIPs – vesting and performance conditions
- Governance – 2016 Directors’ Remuneration Report, terms of reference, appointment of Mercer and market updates

Kier Group plc | Report and Accounts 2017
When setting salaries, the Committee takes into account a number of factors, including the nature of the role (and its evolution), an individual's performance, the external environment (including shareholder feedback), an individual's total remuneration and the average salary increases awarded to the Group's employees (and how these are distributed).

**Annual bonus**

The maximum bonus opportunity for the Chief Executive will be 125%, with 115% for the other Executive Directors (an increase from 100% in 2017). The Committee considers these opportunities to be in line with those at peer group companies.

So that the increased bonus opportunities further incentivise the delivery of Vision 2020, ‘on-target’ bonus payments (as a percentage of salary) for the Executive Directors (other than the Chief Executive) will remain unchanged from those which applied in the 2017 financial year. Reflecting his higher bonus opportunity, the ‘on target’ payment for the Chief Executive (as a percentage of salary) will increase by 6%.

The bonus targets will relate to: profit before tax (50%), the Group’s year-end net debt position (30%), safety targets (10%) and personal objectives (10%).

When assessing the profit before tax element of the bonus, the Committee will take into account any non-underlying items incurred in the year. When assessing the net debt element, the Committee will take into account its key target of average month-end net debt being less than the average month-end capital invested in the Property and Residential divisions.

The safety element of the bonus will require a reduction in the Group’s AAIR during the year. The Committee will also take into account any material incidents which may occur during the year.

The personal objectives element of the bonus will relate to matters including customer satisfaction, operational efficiency, risk management, innovation and employee engagement.

Further details of the specific targets, together with performance against them, will be included in the 2018 Annual Report.

**LTIP awards**

The Executive Directors will continue to receive an award of 150% of their base salary in 2018 (the same level as in 2017). The performance conditions will again relate to EPS (50%), TSR (25%) and net debt : EBITDA (25%), over the three-year period ending 30 June 2020.

There will be three changes to the performance conditions for the 2017 awards, as follows:

- the use of a bespoke group of listed companies against which to compare the Group’s TSR performance, as set out on page 100. These companies were selected because they compete with the Group across the range of services that it provides;
- as a result of an increased correlation with the new comparator group, a reduction in the full-vesting requirement for the TSR element from a 12% to a 10% per annum outperformance. The Committee considers that the revised requirement is of equivalent difficulty to the existing performance condition, requiring upper quartile performance; and
- a reduction in the full-vesting requirement for the EPS performance condition from 15% to 13% per annum growth, which remains in line with the median full-vesting requirement within the FTSE 250. The Committee considers that the revised EPS target remains stretching, when assessed against a number of internal and external reference points.

**Remuneration outcomes in 2017**

**Annual bonus**

The 2017 bonus targets related to: profit before tax (50%), the Group’s year-end net debt position (40%) and health and safety targets (10%). Although the Group’s profit before tax (£126.1m) exceeded the threshold for a bonus payment, the Committee took into account the level of non-underlying items incurred during the year and decided that there would be no payment with respect to this element of the bonus.

The Group’s year-end net debt of £110m represented a strong performance. So as to ensure that the year-end net debt figure was representative of the Group’s overall net debt position, the Committee took into account the Group’s average month-end net debt position relative to the average month-end aggregate capital invested in the Property and Residential divisions and, having done so, was satisfied that a 40% payment for this element of the bonus was appropriate.

During the year, the Group’s UK AAIR reduced by 16%, resulting in a 4% to 8% payment for the Executive Directors (depending on the number of site visits undertaken).

**LTIPs**

The performance period for the 2015 LTIP awards ended on 30 June 2017. These awards will vest as to 29%. Please see page 95 for further information.

**Remuneration across the Group**

In determining the Executive Directors’ remuneration, the Committee takes into account general trends in remuneration across the Group as a whole. The Committee seeks to ensure that the underlying principles which support its decisions on the Executive Directors’ remuneration are consistent with those which relate to decisions on the pay of the wider workforce.

In practice, the Executive Directors’ remuneration is more heavily weighted towards variable pay (and, therefore, is linked to the Group’s performance) than the pay of other employees (which is principally driven by market comparators and individual experience and performance).

**Conclusion**

The Committee recognises that executive remuneration in general continues to be an area of focus for shareholders and other stakeholders. When setting the Executive Directors’ 2018 remuneration, the Committee took into account shareholders’ feedback and is satisfied that, overall, the link between pay and performance remains strong, the interests of the Executive Directors and shareholders have been further aligned (for example, via the new holding period for vested LTIP shares) and the Executive Directors’ remuneration remains competitive.

The Committee will continue to monitor developments in executive remuneration and engage with shareholders to ensure that Kier’s leadership team is appropriately incentivised to continue to deliver growth and the Group’s long-term strategy.

I will be available to answer any questions you may have about the Committee, our work and how we operate at the AGM on 17 November 2017.

**Constance Baroudel**

Chair of the Remuneration Committee

20 September 2017
Directors’ Remuneration Report
Remuneration at a glance

The tables and charts below:

- summarise the principal elements of the Executive Directors’ remuneration in 2017;
- provide an illustration of the application of the new remuneration policy in 2018; and
- summarise how key elements of the new remuneration policy (as set out on pages 86 to 93 (inclusive)) will be implemented in 2018 (subject to its approval at the AGM).

Principal elements of the Executive Directors’ remuneration in 2017

<table>
<thead>
<tr>
<th>Element</th>
<th>Chief Executive (£’000s)</th>
<th>Finance Director (£’000s)</th>
<th>Other Executive Directors (£’000s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>£590,000</td>
<td>£390,000</td>
<td>£364,000</td>
</tr>
<tr>
<td><strong>2017 bonus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total bonus</td>
<td>£283,200</td>
<td>£171,600</td>
<td>£174,720</td>
</tr>
<tr>
<td>% of salary/maximum opportunity</td>
<td>48%</td>
<td>44%</td>
<td>48%</td>
</tr>
<tr>
<td>Cash amount</td>
<td>£188,800</td>
<td>£114,400</td>
<td>£116,480</td>
</tr>
<tr>
<td>Amount satisfied in shares</td>
<td>£94,400</td>
<td>£57,200</td>
<td>£58,240</td>
</tr>
<tr>
<td><strong>2015 LTIP award vesting</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>% of maximum opportunity</td>
<td>29%</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>Number of shares vested</td>
<td>17,992</td>
<td>7,155</td>
<td>3,562 – 4,987</td>
</tr>
<tr>
<td>Face value of vested shares(^2)</td>
<td>£229,038</td>
<td>£91,083</td>
<td>£45,344 – £63,485</td>
</tr>
</tbody>
</table>

\(^1\) All amounts expressed before deductions for income tax and national insurance contributions.  
\(^2\) Using the Company’s average share price for the three-month period ended 30 June 2017 of £12.73.

Illustration of application of remuneration policy in 2018

The following charts illustrate the remuneration that the Executive Directors may receive under different performance scenarios for the year ending 30 June 2018, together with the actual amounts received in the year ended 30 June 2017:

The scenarios set out in the above charts reflect or assume the following:

- ‘Fixed’ remuneration comprises:
  - base salary from 1 July 2017;
  - the estimated value of taxable benefits to be provided in 2018 in line with the remuneration policy (based on the actual value of such benefits provided in 2017, using an average (mean) for the other Executive Directors); and
  - a pension contribution/cash allowance equal to 20% of salary.
- The ‘on-target’ remuneration assumes an annual bonus payment of 65% of the maximum opportunity and a “threshold” LTIP vesting (25% of the maximum opportunity).
- The ‘maximum’ remuneration assumes maximum performance is achieved and therefore awards under the annual bonus and the LTIP pay out or vest at their maximum levels.
- No share price appreciation is assumed for LTIP awards.
- ‘Actual 2017’ applies the figures set out in the table on page 94, using an average (mean) total single figure and 2014 LTIP award value for the other Executive Directors.
Implementation of remuneration policy in 2018

<table>
<thead>
<tr>
<th>Element</th>
<th>Chief Executive</th>
<th>Finance Director</th>
<th>Other Executive Directors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base salary</strong></td>
<td>£620,000 (+5%)</td>
<td>£401,700 (+3%)</td>
<td>£375,000 (+3%)</td>
</tr>
<tr>
<td><strong>Annual bonus</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum: 125% of salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-target: 81% of salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maximum: 115% of salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>On-target: 75% of salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Pension</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20% of salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Annual bonus targets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial (80%): profit before tax (50%) and year-end cash/net debt (30%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-financial (20%): health and safety (10%) and personal objectives (10%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Deferred shares</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>One-third of any net bonus payment to be satisfied by an allocation of shares (legal ownership deferred for three years)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LTIP</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>150% of base salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>LTIP performance conditions</strong></td>
<td>Awards will be subject to the Group’s performance over a three-year period ending 30 June 2020:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50% EPS: cumulative earnings per share (EPS) growth over the performance period</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% TSR: total shareholder return (TSR) when ranked relative to a bespoke list of comparator companies (see page 100)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25% net debt : EBITDA: performance measured by taking the average (mean) of the position as at 30 June 2018, 2019 and 2020</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Holding period</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Any vested LTIP shares must be held for two years after vesting (after payment of tax)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Shareholding guidelines</strong></td>
<td>200% of base salary</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Malus and clawback</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Malus will apply to the deferred shares (in the three-year deferral period) and LTIP awards (prior to vesting)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clawback will apply to any cash bonuses paid and to the two-year post-vesting holding period for the LTIP</td>
<td></td>
<td></td>
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</table>
Introduction
The Company’s current remuneration policy, as set out in the 2014 Annual Report, received shareholder approval at the AGM in November 2014. The Company is therefore required to put a new remuneration policy to shareholders at the AGM on 17 November 2017. The new remuneration policy, which is set out on pages 86 to 93 (inclusive), will take effect from the conclusion of the AGM (subject to shareholder approval). The Committee is satisfied that the new remuneration policy is in the best interests of shareholders and retains discretion to make non-material changes to the policy without reverting to shareholders.

Compliance statement
This Directors’ Remuneration Report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority and applies the main principles relating to remuneration which are set out in the UK Corporate Governance Code (April 2016 edition).

Future policy table
The Group’s policy for each element of an Executive Director’s remuneration, together with an indication of any changes to the 2014 remuneration policy, is set out in the table below:

<table>
<thead>
<tr>
<th>Element and link to strategy</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base salary</strong>&lt;br&gt;To attract and retain Executive Directors of the calibre required to deliver the Group’s strategy</td>
<td>Salaries are reviewed annually by reference to a number of factors, including an individual’s experience, performance and role within the Group, the external market (including FTSE companies of a similar size and sector peers) and any increase awarded to the wider employee population. Any increase is typically effective from 1 July.</td>
</tr>
<tr>
<td><strong>Benefits</strong>&lt;br&gt;To provide benefits which are competitive with the market</td>
<td>Benefits are reviewed from time to time and typically include, but are not limited to, a company car or car allowance, private health insurance and life assurance. Business-related expenses which are deemed to be taxable form part of the benefits provided. In certain circumstances, the Committee may also approve the provision of additional benefits or allowances – for example, the relocation of an Executive Director to perform his or her role.</td>
</tr>
<tr>
<td><strong>SAYE schemes</strong>&lt;br&gt;To encourage ownership of the Company’s shares</td>
<td>One or more HMRC-approved schemes allowing all employees, including Executive Directors, to save up to the maximum limit specified by HMRC rules. Options are granted at up to a 20% discount.</td>
</tr>
<tr>
<td><strong>Share Incentive Plan</strong>&lt;br&gt;To encourage ownership of the Company’s shares</td>
<td>An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate. The plan allows employees to purchase shares out of pre-tax income. The Company may match shares purchased with an award of free shares. Matching shares may be forfeited if employees leave within three years of their award, in accordance with the SIP rules. The plan trustees can reinvest cash dividends to acquire further shares on behalf of participants.</td>
</tr>
<tr>
<td>Opportunity</td>
<td>Performance measures</td>
</tr>
<tr>
<td>----------------------------------------------------------------------------</td>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>Any increase will typically be in line with those awarded to the wider employee population. The Committee has discretion to award higher increases in circumstances that it considers appropriate, such as a material change in the complexity of the business or an individual’s responsibility. Details of salary changes will be disclosed in the Annual Report.</td>
<td>Continued strong performance.</td>
</tr>
<tr>
<td>Benefits are set at a level which the Committee considers appropriate in light of the market and an individual’s circumstances.</td>
<td>None.</td>
</tr>
<tr>
<td>The maximum amount that may be saved is the limit prescribed by HMRC (or such other lower limit as determined by the Committee) at the time employees are invited to participate in a scheme. Typically, employees are invited to participate on an annual basis.</td>
<td>None.</td>
</tr>
<tr>
<td>Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Committee) at the time they are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased.</td>
<td>None.</td>
</tr>
</tbody>
</table>
Future policy table continued

<table>
<thead>
<tr>
<th>Element and link to strategy</th>
<th>Operation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pension</strong>&lt;br&gt; To provide a retirement benefit which is competitive with the market.</td>
<td>Executive Directors participate in a defined contribution scheme.</td>
</tr>
<tr>
<td><strong>Annual bonus</strong>&lt;br&gt; To reward the delivery of near-term performance targets and business strategy</td>
<td>The Company operates a discretionary bonus scheme. Performance measures and targets are set by the Committee at the start of the year. Payments are based on an assessment of performance at the end of the year. Clawback will apply to any cash bonus paid in respect of the financial year ending 30 June 2018 and future years. One-third of any net payment is satisfied by an allocation of Kier Group plc shares, which is deferred for three years (subject to early release for ‘good leavers’ and upon a takeover) and is subject to a malus provision. Dividend payments accrue on deferred bonus shares over the deferral period. See ‘Malus and clawback’ on page 90.</td>
</tr>
<tr>
<td><strong>LTIP</strong>&lt;br&gt; To reward the sustained strong performance by the Group over three years</td>
<td>Awards are made annually and vest, subject to the achievement of performance conditions, at the end of a three-year performance period. At the start of each performance period, the Committee sets performance targets which it considers to be appropriately stretching. Awards are satisfied in the form of a deferred, contingent right to acquire shares in the Company, at no cost to the individual. A two-year post-vesting holding period will apply to awards granted in 2017 and future years. Dividend equivalents (in respect of vested shares) will apply to those awards granted after shareholder approval of this policy and, subject to approval of (i) this policy and (ii) any necessary changes to the LTIP rules, to those awards granted shortly prior to the 2017 AGM. A malus provision applies to awards pre-vesting and a clawback provision applies to the post-vesting holding period. See ‘Malus and clawback’ on page 90. If an event or series of events occurs as a result of which the Committee deems it fair and reasonable that the performance conditions should be modified, the Committee has discretion during the vesting period to modify them. Any modified performance conditions must be no more difficult to satisfy than the original performance conditions were when first set. Any use of Committee discretion with respect to modifying performance conditions will be disclosed in the relevant Annual Report. The awards are subject to the terms of the LTIP and the Committee may adjust or amend the awards only in accordance with the LTIP rules.</td>
</tr>
</tbody>
</table>
For current Executive Directors, the maximum employer contribution is 20% of pensionable salary. Executive Directors may elect to receive all or part of the employer contribution as a taxable cash supplement.

The maximum potential bonus for the financial year ending 30 June 2018 is 125% of base salary for the Chief Executive and 115% of base salary for other Executive Directors. ‘Threshold’ performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee at the start of each financial year. The level of bonus for achieving threshold performance varies by performance measure, and may vary for a measure from year to year, to ensure that it is aligned with the Committee’s assessment of the degree of difficulty (or ‘stretch’) in achieving it.

The Committee has discretion to determine the performance measures and their relative weightings each year. The weighting towards non-financial measures will be no higher than 25% of the maximum potential bonus. The Committee has discretion to adjust bonus payments to ensure that they accurately reflect business and safety performance over the performance period and are fair to shareholders as well as recipients. Actual targets for each performance measure (and performance against each of these targets), and any use by the Committee of its discretion with respect to bonus payments, will be disclosed in the Annual Report immediately following the end of the performance period.

Maximum 2018 opportunities increased from 100% of base salary (see ‘Opportunity’), with increased opportunities payable upon the Group exceeding ‘on-target’ performance, thereby further incentivising delivery of the Group’s strategy. Clawback introduced to enable the Committee to recover bonus in certain circumstances.

The maximum award under the rules of the plan is 200% of base salary. The Committee may grant awards of up to the maximum permitted under the LTIP rules when it considers it appropriate to do so. The reasons for an award in excess of 150% of salary will be disclosed in the relevant Annual Report.

On achieving the threshold performance level for each element of the award, 25% of the relevant element of the award will vest. Vesting is on a straight-line basis between threshold and maximum levels of performance.

The performance conditions for the LTIP awards to be awarded in the 2018 financial year will relate to EPS (50%), TSR (25%) and net debt: EBITDA (25%).

- EPS performance is measured by compound cumulative growth over the performance period.
- TSR outperformance is measured against a bespoke group of listed companies which reflects the Group’s business mix and competition for capital. The TSR comparators for the awards made in the financial year ending 30 June 2018 are listed on page 100.

The Committee retains discretion to change or supplement EPS, TSR and net debt: EBITDA as performance measures with alternative or additional performance measures to ensure that the awards are always linked to sustained business performance. No measure will carry a weighting of less than 25%.

Actual performance measures and weightings will be disclosed in the Annual Report immediately following the granting of an award.

Introduction of a two-year post-vesting holding period to encourage long-term performance and a culture of long-term stewardship and further align the Executive Directors’ interests with those of shareholders.

Dividend equivalents introduced to align with market practice. The Committee’s ability to waive performance conditions has been removed, in line with market practice.
**Payments from outstanding awards**

The Company will honour any commitment entered into, and the Executive Directors will be eligible to receive payment from any award or arrangement made, (i) before this policy came into effect, provided that the terms of the commitment or payment are consistent with the 2014 policy or preceded that policy, or (ii) at a time when the relevant individual was not a Director and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director. For these purposes, ‘payment’ includes the satisfaction of awards of variable remuneration and, in relation to awards of shares, upon the terms which were agreed when the award was granted.

**Notes to the future policy table**

**Malus and clawback**

Allocations of shares in part satisfaction of annual bonus payments and unvested LTIP awards will be subject to a ‘malus’ provision during the deferral period and the period prior to vesting, respectively.

This allows the Committee to determine, in its absolute discretion, that (i) the level of an unvested LTIP award (or part of an award) is reduced (including to nil) and/or (ii) the number of deferred shares is reduced (including to nil) in certain circumstances. Examples of such circumstances include, but are not limited to:

- a material misstatement of the Group’s financial statements;
- a material error in determining the level of satisfaction of a performance condition or target;
- a participant deliberately misleading the Company, the market and/or shareholders in relation to the financial performance of the Group; and
- a participant’s employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal.

The Committee has the right to apply the malus provision to an individual or on a collective basis.

Clawback will be introduced for (i) the cash element of the annual bonus from 2018 (and may be applied up to three years following payment of the bonus) and (ii) the two-year post-vesting holding period which will apply to LTIP awards granted in 2017 and future years. The Committee expects that the circumstances in which clawback will apply will be the same (or substantially the same) as for malus. The clawback may be effected by a reduction in: the number of deferred bonus shares previously allocated, the number of vested or unvested LTIP awards or salary or by repayment from an individual’s own funds or by any combination of these.

**Executive Director shareholding guidelines**

The Committee encourages Executive Directors to accumulate a shareholding in the Company of at least two years’ base salary over a period of up to five years. Executive Directors are encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until they reach this level of shareholding.

**Selection of performance measures and approach to setting targets**

The measures used for the annual bonus are determined annually to reflect KPIs which are considered important and relevant to the Group. The Committee believes that using a number of measures provides a balanced incentive. The measures themselves are aligned to, and are designed to support the delivery of, the Group’s strategy.

In relation to the LTIP awards, the Committee believes that the combination of EPS, TSR and net debt : EBITDA clearly aligns performance to shareholders’ interests and the Group’s long-term strategy. EPS is a key measure of long-term underlying performance of the Group. TSR is intended to measure management’s contribution to the creation of value for shareholders relative to a bespoke peer group which reflects the Group’s mix of business. Cash (and, therefore, net debt) is an important financial measure in the contracting sector and supports the delivery of the Group’s strategy. In future years, the Committee may decide to select other performance measures.

Targets for the annual bonus and the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points. The Committee intends that targets will be stretching but achievable and will align management’s interests with those of shareholders.

**Approach to setting the remuneration of other employees**

Kier’s approach to setting annual remuneration is broadly consistent across the Group. Consideration is given to the experience, performance and responsibilities of individuals as well as to publicly available external benchmarking data, to the extent considered necessary or appropriate. Certain grades of senior employees are eligible to participate in an annual bonus scheme with similar performance measures to those used for the Executive Directors. Maximum opportunities and specific performance measures vary by seniority, with business-specific measures applied where appropriate. Senior managers (currently, approximately 350 individuals) are also eligible to participate in a long-term share incentive plan under which awards will normally vest after three years, subject to continued employment. Award sizes vary according to seniority and responsibility.
Illustration of application of remuneration policy
The charts below set out the minimum (i.e. ‘fixed’) remuneration receivable by each Executive Director as at the date of this Annual Report, as well as the potential remuneration for ‘on-target’ and ‘maximum’ performance, as a result of the application of the remuneration policy set out above in the year ending 30 June 2018.

Chief Executive (£’000s)

<table>
<thead>
<tr>
<th>Fixed</th>
<th>On-target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,500</td>
<td>£2,462</td>
<td></td>
</tr>
<tr>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Finance Director (£’000s)

<table>
<thead>
<tr>
<th>Fixed</th>
<th>On-target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,500</td>
<td>£1,557</td>
<td></td>
</tr>
<tr>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Other Executive Directors (£’000s)

<table>
<thead>
<tr>
<th>Fixed</th>
<th>On-target</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>2,500</td>
<td>£1,415</td>
<td></td>
</tr>
<tr>
<td>2,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>500</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

‘Fixed’ remuneration comprises base salary, taxable benefits and pension contribution/cash allowance. The ‘on-target’ remuneration assumes an annual bonus payment of 65% of the maximum opportunity and a ‘threshold’ LTIP vesting (25% of the maximum opportunity). The ‘maximum’ remuneration assumes maximum performance is achieved and therefore awards under the annual bonus pay out at their maximum levels of 125% (Chief Executive) and 115% (other Executive Directors) of salary, respectively, and LTIP awards vest at their maximum level. No share price appreciation is assumed for LTIP awards.

Approach to remuneration on recruitment

External appointment
When recruiting a new Executive Director from outside the Group, the Committee may make use of all the existing components of remuneration. In addition, the Committee may consider it appropriate to grant an award under an alternative scheme or arrangement in order to facilitate recruitment of an individual, subject to the policy set out below:

Component | Approach
---|---
Base salary | The base salaries of new appointees will be determined by reference to relevant market data, the experience and skills of the individual, internal relativities and the appointee’s current base salary. Where a new appointee has an initial base salary set below the market median, any subsequent adjustment will be managed by the Committee, using (where appropriate) phased increases and subject to the individual’s development in the role.
Benefits | New appointees will be eligible to receive benefits in line with the remuneration policy, which may also include (but are not limited to) any necessary expenses relating to expatriation or relocation on recruitment.
SAYE schemes | New appointees will be eligible to participate on the same terms as all other employees.
SIP | New appointees will be eligible to participate on the same terms as all other employees.
Pension | New appointees will receive pension contributions of up to 20% of pensionable salary into a defined contribution pension arrangement or an equivalent taxable cash supplement or a combination of both.
Annual bonus | The annual bonus structure described in the remuneration policy will apply to new appointees (including the maximum opportunity), pro rated in the year of joining to reflect the proportion of that year employed. One-third of any bonus earned will be deferred into shares.
LTIP | New appointees may be granted awards under the LTIP of up to 200% of salary.
‘Buy-out’ awards | The Committee may consider it appropriate to grant a ‘buy-out’ award (with respect to either a bonus or a share-based incentive scheme) under an alternative scheme or arrangement in order to facilitate recruitment. When doing so, the Committee may, to the extent required, exercise the discretion available under Listing Rule 9.4.2. Any such ‘buy-out’ award would have a fair value no higher than that of the award forfeited. In granting any such award, the Committee will consider relevant factors, including any performance conditions attached to the forfeited awards, the likelihood of those conditions being met and the proportion of the vesting period remaining.

When considering any performance conditions, the Committee will, where appropriate, take into account those used in the Company’s own incentive arrangements. Where appropriate, the Committee will also consider whether it is necessary to introduce further retention measures for an individual – for example, extended deferral periods.

In determining an appropriate remuneration package, the Committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of the Company’s shareholders.
Internal promotion
When recruiting a new Executive Director through internal promotion, the Committee will set remuneration in a manner consistent with the policy for external appointments set out above (other than with respect to ‘buy-out’ awards). Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these commitments.

The remuneration of individuals below the Board is typically not greater than for Executive Directors.

Service contracts
A summary of the key elements of the Executive Directors’ service agreements (insofar as they relate to remuneration) is as follows:

<table>
<thead>
<tr>
<th>Term of contract</th>
<th>Summary of provisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice period</td>
<td>12 months’ notice (both to and from the Executive Director).</td>
</tr>
<tr>
<td>Payment in lieu of notice (PILON)</td>
<td>Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, accrued (but untaken) holiday entitlement, pension contributions or allowance, car allowance and private medical insurance. The Company is entitled to make the PILON on a phased basis, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.</td>
</tr>
<tr>
<td>Change of control</td>
<td>There are no payments due upon a change of control, although deferred bonus shares would be released.</td>
</tr>
<tr>
<td>Other entitlements on termination</td>
<td>There is no contractual entitlement to notice, or any other payments in respect of the period after cessation of employment, if the individual is summarily dismissed. If not required to take any remaining holiday entitlement during his/her notice period, the Executive Director will receive a payment for any accrued (but untaken) holiday entitlement. Please see ‘Payments for loss of office’ below for a summary of other entitlements which may be due upon termination (and which relate to remuneration).</td>
</tr>
</tbody>
</table>

Payments for loss of office
The Company’s policy on payments for loss of office is as follows:

<table>
<thead>
<tr>
<th>Component</th>
<th>Approach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual bonus</td>
<td>Individuals who are considered to be ‘good leavers’ may be considered for a bonus in relation to the year in which their active employment ceases. Any payment will normally be pro rated for length of service and performance during the year. However, the Committee retains the discretion to review the performance of the individual and the Group in general and, having done so, determine that a different level of bonus payment would be appropriate. Clawback will continue to apply to the cash element of any annual bonus payment from 2018 (until the end of the three-year clawback period). Deferred shares allocated in part satisfaction of annual bonuses may be released upon cessation of employment if an individual is a ‘good leaver’. Otherwise, they will be released at the end of the three-year holding period (unless they are forfeited in the case of gross misconduct and/or circumstances justifying summary dismissal).</td>
</tr>
<tr>
<td>LTIP</td>
<td>If an Executive Director’s employment ceases for reasons of death, ill-health, injury, disability, retirement with the agreement of the Company or his/her employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding awards are retained. The Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis or alternatively be retained until the vesting date. Unvested LTIP awards will, subject to Committee discretion, normally be pro rated for length of service during the performance period and will, subject to performance, normally vest at the same time as all other awards in the LTIP award cycle. Vested shares relating to awards made from 2017 will be subject to the two-year post-vesting holding period, irrespective of the date on which they vest. For all other leavers, outstanding LTIP awards automatically lapse, unless the Committee exercises its discretion otherwise (taking into account the factors detailed immediately following this table).</td>
</tr>
<tr>
<td>SIP and SAYE schemes</td>
<td>The Executive Directors are subject to the same ‘leaver’ provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.</td>
</tr>
<tr>
<td>Other</td>
<td>If the Company terminates an Executive Director’s employment by reason of redundancy, the Company will make a redundancy payment to the Executive Director in line with his/her service agreement, any applicable collective bargaining agreement and applicable law and regulation. The Company may make a contribution towards an Executive Director’s legal fees for advice relating to a compromise or settlement agreement and may also make other payments connected to the departure – for example, for outplacement services. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.</td>
</tr>
<tr>
<td>Change of control</td>
<td>Deferred bonus shares will be released and any outstanding LTIP awards may vest early (subject to the Committee’s discretion, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant) and the holding period for vested LTIP awards will cease. Clawback will no longer apply to any vested LTIP awards or prior payments of cash bonuses. The rules of the SIP and the SAYE schemes will apply. No payments are due under the Executive Directors’ service agreements upon a change of control.</td>
</tr>
</tbody>
</table>
Where appropriate, the Committee will oblige the individual to mitigate his/her losses and either offset any alternative remuneration received by the individual against any payments made by the Company for loss of office or reduce any payments to be made by the Company for loss of office to take account of any failure to mitigate when, in the reasonable opinion of the Committee, the individual has failed actively to do so.

In exercising discretion in respect of any of the elements referred to above, the Committee will take into account all factors which it considers to be appropriate at the relevant time. These include, but are not limited to: the duration of the Executive Director’s service; the Committee’s assessment of the Executive Director’s contribution to the success of the Group; whether the Executive Director has worked any notice period or whether a PILON is being made; the need to ensure an orderly handover of duties; and the need to compromise any claims which the Executive Director may have. Any use of Committee discretion will be disclosed in the relevant annual report on remuneration.

**Consideration of employment conditions elsewhere in the Group**

Employees are not formally consulted on the Executive Directors’ remuneration and were not consulted during the preparation of the remuneration policy set out above. However, the Group’s employee engagement survey provides an opportunity for employees to provide their opinion on their own remuneration arrangements.

The Committee takes into account the overall pay and employment conditions of employees within the Group when making decisions on the Executive Directors’ remuneration. In addition, the Committee is provided with information about the proposed annual Group-wide pay review when setting the Executive Directors’ salaries and is made aware of the approximate outcomes of annual bonuses within the wider workforce.

**Consideration of shareholders’ views**

The views of shareholders, and guidance from shareholder representative bodies, are important to the Committee and provide the context for setting the remuneration of the Executive Directors. The Chair of the Committee consulted with a number of significant shareholders during the year and their views have been taken into account when preparing the remuneration policy.

The Committee will keep the remuneration policy under regular review so as to ensure that it continues to relate to the Company’s long-term strategy and aligns the interests of the Executive Directors with those of the shareholders. In addition, the Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

**Non-Executive Director remuneration policy**

**General**

The Non-Executive Directors’ remuneration (including that of the Chairman) reflects the anticipated time commitment to fulfil their duties. Non-Executive Directors do not receive bonuses, long-term incentive awards, a pension or compensation on termination of their appointments. The policy on Non-Executive Directors’ remuneration is as follows:

<table>
<thead>
<tr>
<th>Element and link to strategy</th>
<th>Operation</th>
<th>Opportunity</th>
<th>Performance measures</th>
<th>Change to 2014 policy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To attract and retain Non-Executive Directors of the calibre required and with appropriate skills and experience.</td>
<td>Fee levels are reviewed annually with reference to individual experience, the external market and the expected time commitment required of the Director. Additional fees are payable to the Chairs of the Board’s committees and to the Senior Independent Director.</td>
<td>Fees may be increased in line with the outcome of the annual review and will not normally exceed the increase awarded to the wider employee population. Higher increases may be awarded should there be a material change to the requirements of the role, such as additional time commitment. Any changes to fees will be disclosed in the annual report on remuneration for the relevant year.</td>
<td>Continued strong performance.</td>
<td>None.</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To reimburse Non-Executive Directors for expenses.</td>
<td>Reasonable and necessary expenses are reimbursed, together with any tax due on them.</td>
<td>Expenses (including, without limitation, travel and subsistence) incurred in connection with Kier business.</td>
<td>Not applicable.</td>
<td>Included for clarification purposes.</td>
</tr>
</tbody>
</table>

**Recruiting Non-Executive Directors**

When recruiting a new Non-Executive Director, the Committee will follow the policy set out in the table above.

**Non-Executive Director letters of appointment**

The Non-Executive Directors do not have service contracts but have entered into letters of appointment with the Company. The letters of appointment do not include any provisions for the payment of pre-determined compensation upon termination of appointment.
### Directors’ remuneration for the 2017 financial year

The following table provides details of the Directors’ remuneration for the 2017 financial year, together with their remuneration for the 2016 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

<table>
<thead>
<tr>
<th>Directors</th>
<th>Salary/fee (£000)</th>
<th>Taxable benefits1 (£000)</th>
<th>Bonus (£000)</th>
<th>LTIP vesting (£000)</th>
<th>All-employee schemes (£000)</th>
<th>Pension6 (£000)</th>
<th>Total (£000)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nigel Brook</td>
<td>364</td>
<td>350</td>
<td>16</td>
<td>14</td>
<td>175</td>
<td>315</td>
<td>45</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>390</td>
<td>375</td>
<td>10</td>
<td>12</td>
<td>172</td>
<td>338</td>
<td>91</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>590</td>
<td>530</td>
<td>13</td>
<td>13</td>
<td>283</td>
<td>477</td>
<td>229</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>364</td>
<td>350</td>
<td>13</td>
<td>13</td>
<td>175</td>
<td>315</td>
<td>57</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>364</td>
<td>350</td>
<td>13</td>
<td>12</td>
<td>175</td>
<td>315</td>
<td>63</td>
</tr>
<tr>
<td><strong>Non-Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Justin Atkinson</td>
<td>60</td>
<td>40</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Constance Baroudel5</td>
<td>56</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Kirsty Bashforth</td>
<td>50</td>
<td>50</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Amanda Mellor6</td>
<td>25</td>
<td>60</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Adam Walker</td>
<td>60</td>
<td>30</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Phil White</td>
<td>188</td>
<td>188</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Nick Winser</td>
<td>60</td>
<td>60</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>2,571</td>
<td>2,383</td>
<td>65</td>
<td>64</td>
<td>980</td>
<td>1,760</td>
<td>485</td>
</tr>
</tbody>
</table>

1. Comprise private health insurance and a company car or a car allowance. In addition to these amounts, the Board and members of senior management have access to a driver, whose total annual cost to the Group is approximately £50,000 of which the Chief Executive’s home-to-work usage in each of 2016 and 2017 was approximately 20%.

2. The award granted in October 2014 will vest as to 29%. The value is calculated using the Company’s average share price for the three-month period ended 30 June 2017 of £12.73.

3. Relates to the awards granted in October 2013, which vested in October 2016. The amounts stated have been revised, as compared to those stated in the 2016 Annual Report, to reflect the Company’s share price on the date of vesting of £13.60.

4. The value of the matching shares purchased during the 2017 financial year under the Share Incentive Plan (the SIP), using an average share price for matching shares purchased during the 2017 financial year of £13.08.

5. The value of the matching shares purchased during the 2016 financial year under the SIP using an average share price for matching share purchases during the 2016 financial year of £13.27.

6. Comprises the payment of employer pension contributions and/or a cash allowance.

7. Constance Baroudel was appointed to the Board with effect from 1 July 2016 and as Chair of the Remuneration Committee with effect from 18 November 2016.

8. Amanda Mellor retired from the Board with effect from 18 November 2016.

All figures in the above table have been rounded to the nearest £1,000.

### Pension entitlements

The Executive Directors participate in the defined contribution section of the Kier Group Pension Scheme. All receive a pension contribution of 20% of base salary, subject to the annual allowance, with the balance being paid as a cash allowance. Cash allowances are subject to tax and national insurance deductions and excluded when determining annual bonus and long-term incentives.

Payments to the Executive Directors with respect to their pension entitlements during the 2017 financial year were:

<table>
<thead>
<tr>
<th>Director</th>
<th>Pension contribution</th>
<th>Cash allowance</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigel Brook</td>
<td>–</td>
<td>£72,800</td>
<td>£72,800</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>£32,500</td>
<td>£45,500</td>
<td>£78,000</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>–</td>
<td>£118,000</td>
<td>£118,000</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>£30,000</td>
<td>£42,800</td>
<td>£72,800</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>£2,500</td>
<td>£70,300</td>
<td>£72,800</td>
</tr>
</tbody>
</table>
**Annual bonus – 2017 financial year**

The Executive Directors’ bonuses in respect of the 2017 financial year (in each case before deductions for income tax and national insurance contributions) are as follows:

<table>
<thead>
<tr>
<th>Performance level</th>
<th>Performance achieved¹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Weighting</strong></td>
<td><strong>Measure</strong></td>
</tr>
<tr>
<td>Financial</td>
<td>Profit before tax</td>
</tr>
<tr>
<td></td>
<td>Pay-out¹</td>
</tr>
<tr>
<td></td>
<td>Year-end cash/net debt</td>
</tr>
<tr>
<td></td>
<td>Pay-out¹</td>
</tr>
<tr>
<td>Non-financial</td>
<td>Health and safety</td>
</tr>
<tr>
<td>Total (%)</td>
<td>48%</td>
</tr>
<tr>
<td>Total (£)</td>
<td>£174,720</td>
</tr>
</tbody>
</table>

¹ As a percentage of maximum opportunity (i.e. 100% of base salary).
² The Committee took into account the level of non-underlying items incurred during the year and decided that there would be no payment with respect to this element of the bonus.
³ The Committee also took into account the Group’s average month-end net debt position relative to the average month-end aggregate capital invested in the Property and Residential divisions.
⁴ The target relates to a reduction in the Group’s average UK AAIR from 1 January to 30 June 2017, as compared with the equivalent period in 2016, with the maximum opportunity requiring a 20% reduction. There was a 16% reduction, resulting in an 8% payment. The Committee decided to reduce the amount payable to Bev Dew due to the required number of visible leaderships tours during June to September 2016 not having been undertaken.

One-third of the bonus awarded will be satisfied by an allocation of shares (deferred for three years), which will be subject to ‘malus’.

**LTIP awards – performance period ended 30 June 2017**

The three-year performance period of the LTIP awards granted in the 2015 financial year ended on 30 June 2017. Performance against the performance conditions of these awards was as follows:

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Targets</th>
<th>Actual performance</th>
<th>Level of vesting⁴</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cumulative EPS growth</td>
<td>50%</td>
<td>0%</td>
<td>9.4% p.a.²</td>
<td>58%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>vesting for below 5% p.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>vesting for 5% p.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>vesting for 15% p.a.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Straight-line vesting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>between these points</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TSR outperformance³</td>
<td>50%</td>
<td>0%</td>
<td>-8.3% p.a.</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>vesting for performance in line with index</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
<td>vesting for performance in line with index +12% p.a.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Straight-line vesting</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>between these points</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>29%</td>
<td></td>
</tr>
</tbody>
</table>

¹ Expressed as a percentage of the maximum opportunity.
² Adjusted to reflect the sale of Mouchel Consulting in October 2016.
³ Against a revenue-weighted index based 50% on the FTSE All Share Construction & Materials Index and 50% on the FTSE All Share Support Services Index (representing the Group’s approximate prior year revenue mix at the date of grant).

The vesting of these awards will result in the allocation of the following numbers of shares:

<table>
<thead>
<tr>
<th>Director</th>
<th>Maximum number of shares</th>
<th>Number of shares vesting¹</th>
<th>Value¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigel Brook</td>
<td>12,284</td>
<td>3,562</td>
<td>£45,344</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>24,674</td>
<td>7,155</td>
<td>£91,083</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>62,042</td>
<td>17,992</td>
<td>£229,038</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>15,479</td>
<td>4,488</td>
<td>£57,132</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>17,199</td>
<td>4,987</td>
<td>£63,485</td>
</tr>
</tbody>
</table>

¹ The value of an award is calculated by multiplying the number of vested shares by the Company’s average share price for the three-month period ended 30 June 2017 of £12.73. The values stated are before deductions for income tax and national insurance contributions.
² Vesting date for the awards will be 22 October 2017, save in relation to the award granted to Bev Dew, for which the vesting date will be 8 May 2018.
Incentive awards made during the 2017 financial year

The following incentive awards were made to each of the Executive Directors during the 2017 financial year:

<table>
<thead>
<tr>
<th>Award</th>
<th>Basis of award</th>
<th>Director</th>
<th>Face value (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTIP</td>
<td>150% of base salary for the year ended 30 June 2017</td>
<td>Nigel Brook</td>
<td>£545,996</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bev Dew</td>
<td>£584,998</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Haydn Mursell</td>
<td>£884,987</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nigel Turner</td>
<td>£545,996</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Claudio Vertiero</td>
<td>£545,996</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>25% of face value</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Performance measures</td>
</tr>
<tr>
<td>Deferred shares</td>
<td>1/3 of the net bonus for the year ended 30 June 2016</td>
<td>Nigel Brook</td>
<td>£55,650</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bev Dew</td>
<td>£59,620</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Haydn Mursell</td>
<td>£84,308</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nigel Turner</td>
<td>£55,650</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Claudio Vertiero</td>
<td>£55,650</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>SIP</td>
<td>Matching shares purchased in accordance with the SIP rules</td>
<td>Nigel Brook</td>
<td>£903</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Bev Dew</td>
<td>£903</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Haydn Mursell</td>
<td>£746</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nigel Turner</td>
<td>£903</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Claudio Vertiero</td>
<td>£916</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Performance measures</td>
</tr>
</tbody>
</table>

1 For the LTIP awards, ‘face value’ is calculated using the market price of a share in the capital of the Company on 20 October 2016 of £13.68. For the deferred share awards, ‘face value’ is calculated using the market price of a share in the capital of the Company on 28 September 2016 of £13.55. For the SIP ‘face value’ is calculated using the total number of shares bought on behalf of the relevant individuals during the 2017 financial year and an average share price for matching share purchases during the year of £13.08.

The performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2017 financial year are set out in the table below. The awards will, subject to the satisfaction of the performance conditions, vest on the third anniversary of the grant date (21 October 2019).

<table>
<thead>
<tr>
<th>Performance condition</th>
<th>Weighting</th>
<th>Targets</th>
</tr>
</thead>
</table>
| Cumulative EPS growth | 50%       | 0% vesting for below 5% p.a.  
25% vesting for 5% p.a.  
100% vesting for 15% p.a.  
Straight-line vesting between all points |
| TSR outperformance¹   | 25%       | 0% vesting for performance below index  
25% vesting for performance in line with index  
100% vesting for performance in line with index +12% p.a.  
Straight-line vesting between all points |
| Net debt : EBITDA²    | 25%       | 0% vesting for above 1.05:1  
25% vesting for 1.05:1  
62.5% vesting for 1:1  
100% vesting for 0.95:1  
Straight-line vesting between all points |

¹ Against a revenue-weighted index based 50% on the FTSE All Share Construction & Materials Index and 50% on the FTSE All Share Support Services Index (representing the Group’s approximate prior year revenue mix at the date of grant).
² Net debt: EBITDA performance will be measured by taking the average (mean) of the position as at 30 June 2017, 2018 and 2019.

Payments for loss of office

No payments were made for loss of office during the 2017 financial year.
Payments to past Directors

Steve Bowcott’s employment with the Group ceased on 30 April 2015. The Committee agreed that the LTIP award granted to Steve in October 2014 would be permitted to vest, subject to the satisfaction of its performance conditions and time pro rata up to 30 April 2015. Steve will therefore receive 4,166 shares (before deductions for income tax and national insurance contributions). Based on the Company’s average share price for the three-month period ended 30 June 2017 of £12.73, the value of such shares is £53,033. No other payments were made to Steve Bowcott or any other past Directors during the 2017 financial year.

Directors’ shareholdings and share interests

The Committee encourages the Executive Directors to build up a shareholding in the Company of at least two years’ base salary, to be accumulated over a period of up to five years. Executive Directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and upon the vesting of LTIP awards until this shareholding has been reached. The following table sets out details, as at 30 June 2017, of the shareholdings and share interests of those persons (together with, where relevant, the shareholdings and share interests of their connected persons) who, during the 2017 financial year, served as a Director:

<table>
<thead>
<tr>
<th>Director</th>
<th>Shares held</th>
<th>Options held</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owned outright* or vested</td>
<td>Vested subject to a holding period</td>
<td>Unvested and subject to performance conditions</td>
</tr>
<tr>
<td>Justin Atkinson</td>
<td>2,964</td>
<td>–</td>
</tr>
<tr>
<td>Constance Baroudel*7</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Kirsty Bashforth</td>
<td>2,019</td>
<td>–</td>
</tr>
<tr>
<td>Nigel Brook</td>
<td>14,693</td>
<td>7,311</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>1,433</td>
<td>6,631</td>
</tr>
<tr>
<td>Amanda Mellor*8</td>
<td>1,492</td>
<td>–</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>49,707</td>
<td>14,926</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>27,741</td>
<td>8,746</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>12,293</td>
<td>7,840</td>
</tr>
<tr>
<td>Adam Walker</td>
<td>2,000</td>
<td>–</td>
</tr>
<tr>
<td>Phil White</td>
<td>4,354</td>
<td>–</td>
</tr>
<tr>
<td>Nick Winser</td>
<td>5,999</td>
<td>–</td>
</tr>
</tbody>
</table>

1 Comprising legally or beneficially held shares by the relevant Director or their connected person (including partnership shares, dividend shares and matching shares purchased before 30 June 2014 under the SIP – see ‘Share Incentive Plan’ on page 98).
2 Comprising deferred shares allocated to the relevant Director in connection with annual bonuses. See ‘Deferred shares’ below.
3 Comprising unvested LTIP awards.
4 Comprising matching shares purchased after 30 June 2014 under the SIP.
5 Comprising options under the SAYE schemes. See ‘Save As You Earn schemes’ on page 99.
6 Calculated based on (i) shares owned outright by the Director or his/her connected persons and (ii) deferred shares allocated in connection with annual bonuses, using the market price of a share in the capital of the Company on 30 June 2017 of £12.26 and gross base salaries for the year ended 30 June 2017.
7 Constance Baroudel was appointed to the Board on 1 July 2016.
8 The table refers to the number of shares owned by Amanda Mellor at the date of her retirement from the Board (18 November 2016).

Since 30 June 2017, the Executive Directors have acquired beneficial interests in ordinary shares in the capital of the Company under the SIP, as referred to on page 98.

Deferred shares

Those persons who, during the 2017 financial year, served as a Director beneficially owned, at 30 June 2017, the following numbers of shares in the capital of the Company as a result of awards of deferred shares made (in part satisfaction of annual bonus payments) in each of the years indicated:

<table>
<thead>
<tr>
<th>Director</th>
<th>2015 award</th>
<th>2016 award</th>
<th>2017 award</th>
<th>Cumulative total 30 June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigel Brook</td>
<td>867</td>
<td>2,337</td>
<td>4,107</td>
<td>7,311</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>–</td>
<td>2,231</td>
<td>4,400</td>
<td>6,631</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>2,693</td>
<td>6,011</td>
<td>6,222</td>
<td>14,926</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>1,498</td>
<td>3,141</td>
<td>4,107</td>
<td>8,746</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>943</td>
<td>2,790</td>
<td>4,107</td>
<td>7,840</td>
</tr>
<tr>
<td>Date of award</td>
<td>29 September 2014</td>
<td>29 September 2015</td>
<td>29 September 2016</td>
<td>–</td>
</tr>
<tr>
<td>Share price used for award*1</td>
<td>1,681 pence</td>
<td>1,364 pence</td>
<td>1,355 pence</td>
<td>–</td>
</tr>
<tr>
<td>End of holding period</td>
<td>29 September 2017</td>
<td>29 September 2018</td>
<td>29 September 2019</td>
<td>–</td>
</tr>
</tbody>
</table>

1 The market price of a share in the capital of the Company from the business day immediately prior to the date of the award, being 26 September 2014, 28 September 2015 and 28 September 2016, respectively.
LTIP awards
Those persons who, during the year ended 30 June 2017, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2017:

<table>
<thead>
<tr>
<th>Director</th>
<th>2015 award</th>
<th>2016 award</th>
<th>2017 award</th>
<th>Cumulative total 30 June 2016</th>
<th>Cumulative total 30 June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigel Brook</td>
<td>12,284</td>
<td>37,620</td>
<td>39,912</td>
<td>59,653</td>
<td>89,816</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>24,674</td>
<td>40,308</td>
<td>42,763</td>
<td>64,982</td>
<td>107,745</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>62,042</td>
<td>56,995</td>
<td>64,692</td>
<td>158,828</td>
<td>183,729</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>15,479</td>
<td>37,620</td>
<td>39,912</td>
<td>64,495</td>
<td>93,011</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>17,199</td>
<td>37,620</td>
<td>39,912</td>
<td>68,257</td>
<td>94,731</td>
</tr>
</tbody>
</table>

Date of award: 22 October 2014\(^1\), 22 October 2015, 21 October 2016
Share price used for award:\(^2\) 1,528 pence, 1,396 pence, 1,368 pence
End of performance period: 30 June 2017, 30 June 2018, 30 June 2019

\(^1\) The award granted to Bev Dew was made on 8 May 2015, using a share price of £15.85, being the market price of a share from the business day immediately prior to the date of the award.

\(^2\) The market price of a share from the business day immediately prior to the date of the award.

The performance conditions for the 2015 and 2016 awards are set out in the Annual Reports in respect of the year in which the awards were made. The performance conditions for the 2017 award are set out on page 96.

Share Incentive Plan
Those persons who, during the year ended 30 June 2017, served as a Director beneficially owned the following numbers of shares as a result of purchases under the SIP at 30 June 2017:

<table>
<thead>
<tr>
<th>Director</th>
<th>Unrestricted shares</th>
<th>Partnership shares</th>
<th>Dividend shares</th>
<th>Matching shares (&lt;3 years)</th>
<th>Matching shares (&gt;3 years)</th>
<th>Cumulative total 30 June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigel Brook</td>
<td>556</td>
<td>671</td>
<td>186</td>
<td>201</td>
<td>134</td>
<td>1,748</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>–</td>
<td>296</td>
<td>21</td>
<td>148</td>
<td>–</td>
<td>465</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>362</td>
<td>602</td>
<td>150</td>
<td>168</td>
<td>133</td>
<td>1,415</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>2,248</td>
<td>595</td>
<td>425</td>
<td>189</td>
<td>108</td>
<td>3,565</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>194</td>
<td>671</td>
<td>131</td>
<td>202</td>
<td>134</td>
<td>1,332</td>
</tr>
</tbody>
</table>

Under the SIP, any amount saved by a participant will be applied by the trustee of the SIP to make monthly purchases of shares on his/her behalf – ‘partnership shares’. The Company matches purchases through the SIP (currently at the rate of one free share for every two shares purchased – ‘matching shares’) and the trustee reinvests cash dividends to acquire further shares on behalf of the participants – ‘dividend shares’.

Matching shares which have been purchased within three years of the termination of an individual’s employment may, depending on the circumstances of such termination, be forfeited.

‘Unrestricted shares’ are partnership, dividend and matching shares which were purchased more than five years from the relevant date and can be withdrawn from the SIP trust by the participants without incurring income tax or national insurance liability.

Details of the number of matching shares purchased during the year are set out in the table in the paragraph headed ‘Incentive awards made during the 2017 financial year’ on page 96.

At 20 September 2017, the Company had been notified that the following Directors had acquired beneficial interests in further ordinary shares in the capital of the Company under the SIP since 30 June 2017: Nigel Brook – 38 shares, Bev Dew – 37 shares, Haydn Mursell – 32 shares, Nigel Turner – 36 shares and Claudio Veritiero – 36 shares. There have been no other changes in the interests of the Directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2017.
Save As You Earn schemes
Those persons who, during the 2017 financial year, served as a Director had the following options under the Kier Group plc 2006 Sharesave Scheme and/or the Kier Group plc 2016 Sharesave Scheme at 30 June 2017:

<table>
<thead>
<tr>
<th>Director</th>
<th>Date granted</th>
<th>Maximum number of shares receivable at 1 July 2016</th>
<th>Awarded during the year</th>
<th>Exercise during the year</th>
<th>Lapsed during the year</th>
<th>Maximum number of shares receivable at 30 June 2017</th>
<th>Exercise price</th>
<th>Exercise period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigel Brook</td>
<td>31 October 2014</td>
<td>775</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>775</td>
<td>1,159 pence</td>
<td>1 December 2017 – 31 May 2018</td>
</tr>
<tr>
<td></td>
<td>30 October 2015</td>
<td>784</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>784</td>
<td>1,147 pence</td>
<td>1 December 2018 – 31 May 2019</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>30 October 2015</td>
<td>1,569</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,569</td>
<td>1,147 pence</td>
<td>1 December 2018 – 31 May 2019</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>30 October 2015</td>
<td>784</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>784</td>
<td>1,147 pence</td>
<td>1 December 2018 – 31 May 2019</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>3 May 2013</td>
<td>–</td>
<td>–</td>
<td>1,072</td>
<td>–</td>
<td>1,072</td>
<td>839 pence</td>
<td>1 July 2016 – 31 December 2016</td>
</tr>
<tr>
<td></td>
<td>31 October 2014</td>
<td>775</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>775</td>
<td>1,159 pence</td>
<td>1 December 2017 – 31 May 2018</td>
</tr>
<tr>
<td></td>
<td>8 November 2016</td>
<td>–</td>
<td>779</td>
<td>–</td>
<td>–</td>
<td>779</td>
<td>1,155 pence</td>
<td>1 December 2019 – 31 May 2020</td>
</tr>
</tbody>
</table>

1 Assumes that each Director continues to save at the current rate(s) until the commencement of the relevant exercise period.

Total shareholder return
The graph below shows the value, at 30 June 2017, of £100 invested in shares in the capital of the Company on 30 June 2009, compared with the value of £100 invested in (i) an index comprising those companies selected as the comparator group for the 2017 LTIP award (see page 100) and (ii) the FTSE 350 (excluding investment trusts). The LTIP comparator group was chosen because it comprises companies with which the Group competes across the range of services that it provides and the FTSE 350 was chosen to illustrate the Group’s performance against a broad equity market index of the UK’s leading companies. The other points plotted are the values at 30 June during the eight-year period.

Chief Executive’s remuneration
The table below sets out the total remuneration of the Chief Executive paid with respect to each financial year indicated:

<table>
<thead>
<tr>
<th>Chief Executive</th>
<th>Year</th>
<th>Chief Executive single figure of remuneration (£000)</th>
<th>Annual bonus payout against maximum opportunity (%)</th>
<th>LTIP vesting against maximum opportunity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Dodds/Paul Sheffield</td>
<td>2010</td>
<td>£938</td>
<td>51%</td>
<td>0%</td>
</tr>
<tr>
<td>Paul Sheffield</td>
<td>2011</td>
<td>£753</td>
<td>69%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>2012</td>
<td>£1,273</td>
<td>75%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>2013</td>
<td>£987</td>
<td>48.8%</td>
<td>31.2%</td>
</tr>
<tr>
<td></td>
<td>2014</td>
<td>£1,099</td>
<td>67.9%</td>
<td>32.7%</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>2015</td>
<td>£1,079</td>
<td>91.9%</td>
<td>0%</td>
</tr>
<tr>
<td></td>
<td>2016</td>
<td>£1,311</td>
<td>90%</td>
<td>34%</td>
</tr>
<tr>
<td></td>
<td>2017</td>
<td>£1,234</td>
<td>48%</td>
<td>29%</td>
</tr>
</tbody>
</table>

1 All figures are rounded to the nearest £1,000.
2 Comprising £700,000 for John Dodds and £238,000 for Paul Sheffield (as Chief Executive). Mr. Dodds retired from the Board on 31 March 2010 and, during the 2010 financial year, was also paid £387,000 in respect of the remainder of his notice period under his service agreement.
**Percentage change in the Chief Executive’s remuneration**

The table below shows the percentage changes in base salary, taxable benefits and annual bonus of the Chief Executive in the 2017 financial year, as compared to the 2016 financial year, together with the approximate comparative average figures for those employees who were eligible for salary reviews on 1 July of each year and who were not subject to collective agreements. This section of the employee population (comprising approximately 7,600 individuals across a number of levels) is considered to be the most appropriate group for comparison purposes, as their remuneration is controlled by the Group and is subject to similar external market forces as those which relate to the Chief Executive’s remuneration. Approximately 800 employees are eligible to receive a bonus.

<table>
<thead>
<tr>
<th>Element of remuneration</th>
<th>Chief Executive change</th>
<th>Other employees change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base salary</td>
<td>5.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Taxable benefits</td>
<td>–</td>
<td>1.4%</td>
</tr>
<tr>
<td>Annual bonus</td>
<td>-40.9%</td>
<td>2.4%</td>
</tr>
</tbody>
</table>

**Relative importance of spend on pay**

The graph below shows the percentage changes in the total employee remuneration and dividend paid between the 2016 and 2017 financial years:

<table>
<thead>
<tr>
<th>Total employee remuneration (£m)</th>
<th>Dividend (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>2017</td>
</tr>
<tr>
<td>851.8</td>
<td>+0.6%</td>
</tr>
<tr>
<td>847.1</td>
<td>+15.2%</td>
</tr>
</tbody>
</table>

Employee remuneration is remuneration paid to or receivable by all employees of the Group and is explained in note 6 to the 2017 consolidated financial statements.

The dividend figures in the chart comprise the dividends paid in the 2016 and 2017 financial years (as stated in note 10 to the 2017 consolidated financial statements), being, respectively, (i) the final dividend for the 2015 financial year and the interim dividend for the 2016 financial year and (ii) the final dividend for the 2016 financial year and the interim dividend for the 2017 financial year.

**Implementation of the remuneration policy in 2018**

**Executive Directors’ base salary**

The base salaries of the Executive Directors are, with effect from 1 July 2017, as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>From 1 July 2016</th>
<th>From 1 July 2017</th>
<th>Percentage increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nigel Brook</td>
<td>£364,000</td>
<td>£375,000</td>
<td>3.0%</td>
</tr>
<tr>
<td>Bev Dew</td>
<td>£390,000</td>
<td>£401,700</td>
<td>3.0%</td>
</tr>
<tr>
<td>Haydn Mursell</td>
<td>£590,000</td>
<td>£620,000</td>
<td>5.0%</td>
</tr>
<tr>
<td>Nigel Turner</td>
<td>£364,000</td>
<td>£375,000</td>
<td>3.0%</td>
</tr>
<tr>
<td>Claudio Veritiero</td>
<td>£364,000</td>
<td>£375,000</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

**Annual bonus**

In the 2018 financial year, the maximum annual bonus opportunity for the Chief Executive will be 125% of base salary and 115% of base salary for all other Executive Directors, of which a maximum of 50% will relate to profit performance, a maximum of 30% to cash/net debt performance, 10% to health and safety targets and 10% to personal objectives. These objectives will relate to matters including customer satisfaction, operational efficiency, risk management, innovation and employee engagement. The targets, and performance against them, will be disclosed in further detail in next year’s Annual Report. One-third of the net bonus will be satisfied by an allocation of shares, deferred for three years. Clawback provisions will apply for a three-year period following any bonus payment.

**LTIP awards**

In the 2018 financial year, the Executive Directors will be granted LTIP awards of 150% of base salary. The performance conditions (and respective weightings) and targets for these LTIP awards will be the same as for the awards granted during the 2017 financial year, except for (i) the changes to the full-vesting requirements for the EPS and TSR elements of the award described on page 96 and (ii) the comparator group for TSR purposes, which will be:

<table>
<thead>
<tr>
<th>Balfour Beatty</th>
<th>Galliford Try</th>
<th>Mears</th>
<th>Morgan Sindall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carillion</td>
<td>Henry Boot</td>
<td>Mittle</td>
<td>Renew Holdings</td>
</tr>
<tr>
<td>Costain</td>
<td>Interserve</td>
<td>MJ Gleeson</td>
<td>SEGRO</td>
</tr>
</tbody>
</table>

The Committee selected these companies because it considers that, together, they are the companies with which the Group competes across the range of services that it provides. The awards will, subject to the satisfaction of the performance conditions, vest on the third anniversary of their grant. A two-year holding period will apply to any vested awards.

**Pension and taxable benefits**

The Executive Directors will receive a pension contribution of 20% of salary, subject to the annual allowance, with the balance being paid as a cash allowance. The Executive Directors will also receive private health insurance and either a company car or a car allowance of £11,900 per annum. Both amounts remain unchanged from the 2017 financial year.
Non-Executive Directors’ fees

The Non-Executive Director base fee increased by 3% (from £50,000 per annum) with effect from 1 July 2017. There was no increase in the annual fee payable to the Chair of a Board committee, the Senior Independent Director or the Chairman from that date. The total fees payable to the Non-Executive Directors with effect from 1 July 2017 are as follows:

<table>
<thead>
<tr>
<th>Director</th>
<th>Base fee from 1 July 2017</th>
<th>Chair of Board committee fee from 1 July 2017</th>
<th>Senior Independent Director fee from 1 July 2017</th>
<th>Total from 1 July 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Justin Atkinson</td>
<td>£51,500</td>
<td>–</td>
<td>£10,000</td>
<td>£61,500</td>
</tr>
<tr>
<td>Constance Baroudel</td>
<td>£51,500</td>
<td>£10,000</td>
<td>–</td>
<td>£61,500</td>
</tr>
<tr>
<td>Kirsty Bashforth</td>
<td>£51,500</td>
<td>–</td>
<td>–</td>
<td>£51,500</td>
</tr>
<tr>
<td>Philip Cox¹</td>
<td>£51,500</td>
<td>–</td>
<td>–</td>
<td>£51,500</td>
</tr>
<tr>
<td>Adam Walker</td>
<td>£51,500</td>
<td>£10,000</td>
<td>–</td>
<td>£61,500</td>
</tr>
<tr>
<td>Phil White²</td>
<td>£188,000</td>
<td>–</td>
<td>–</td>
<td>£188,000</td>
</tr>
<tr>
<td>Nick Winser</td>
<td>£51,500</td>
<td>£10,000</td>
<td>–</td>
<td>£61,500</td>
</tr>
</tbody>
</table>

¹ Philip Cox became Chairman on 1 September 2017, from when he became entitled to receive an annual fee of £235,000 for the role. Prior to Mr Cox’s appointment, the Committee reviewed the Chairman’s fee to ensure that it was in line with the fee payable at sector peers. Mr. Cox does not receive a fee for his work as the Chair of the Nomination Committee.

² Phil White retired as Chairman and from the Board with effect from 31 August 2017.

The Remuneration Committee

Membership and meeting attendance

The names of the members of the Committee are set out on page 82, together with an indication of the Committee’s principal activities during the 2017 financial year. The Chief Executive and the Group HR Director (Chris Last) are invited to attend Committee meetings. No individuals are involved in decisions relating to their own remuneration. The Committee met formally eight times during the year. The secretary of the Committee is the Company Secretary (Hugh Raven). The Committee’s terms of reference can be viewed on the Company’s website at www.kier.co.uk/corporategovernance.

Principal activities – 2017 financial year

The annual statement of the Chair of the Remuneration Committee on pages 82 and 83 provides a summary of the Committee’s principal activities during the year.

Committee performance evaluation

2017 – progress against 2016 evaluation

The 2016 Board evaluation identified:

› ensuring that the Committee is provided with high quality information at all times; and

› tendering the role of remuneration consultants to the Committee

as being the two key areas of focus for the Committee in the 2017 financial year.

The 2017 Board evaluation process confirmed that good progress had been made with respect to the information provided to the Committee. Following a formal tender process, Mercer was re-appointed as remuneration consultants.

2018 – principal areas of focus

The 2017 Board evaluation identified the need for the Committee to continue to engage with all stakeholders, principally shareholders and the Executive Directors, to understand their views and ensure a balanced application of the new remuneration policy.

Advisers

Mercer also provides advice in respect of the Mouchel Superannuation Fund. However, the Committee is satisfied that Mercer, in providing remuneration advice to the Committee, did not have any connection with the Company that impaired its independence. Total fees of £117,780 (excluding VAT) were payable in respect of Mercer’s services as remuneration advisers during the 2017 financial year. Mercer is a signatory to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group. The Committee also receives support and advice from the Company Secretary and the Group HR Director.

Shareholder voting

At the 2016 AGM, the results of the vote on the resolution relating to the Remuneration Report were:

<table>
<thead>
<tr>
<th>Votes for¹</th>
<th>Percentage votes for</th>
<th>Votes against²</th>
<th>Percentage votes against</th>
<th>Votes withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>46,070,775</td>
<td>89.99</td>
<td>5,122,376</td>
<td>10.01</td>
<td>6,580,923</td>
</tr>
</tbody>
</table>

¹ Includes those votes for which discretion was given to the Chairman.

² Does not include votes withheld.

The remuneration policy was last approved at the 2014 AGM. The results of the vote on the resolution approving the policy were:

<table>
<thead>
<tr>
<th>Votes for¹</th>
<th>Percentage votes for</th>
<th>Votes against²</th>
<th>Percentage votes against</th>
<th>Votes withheld</th>
</tr>
</thead>
<tbody>
<tr>
<td>31,687,997</td>
<td>98.87</td>
<td>361,173</td>
<td>1.13</td>
<td>115,415</td>
</tr>
</tbody>
</table>

¹ Includes those votes for which discretion was given to the Chairman.
Directors’ Report

Introduction
This Directors’ Report and the Strategic Report on pages 1 to 57 (inclusive) together comprise the ‘management report’ for the purposes of Disclosure and Transparency Rule 4.1.5R.

Information incorporated by reference
The following information is provided in other appropriate sections of this Annual Report and the financial statements and is incorporated by reference:

<table>
<thead>
<tr>
<th>Information</th>
<th>Reported in</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate governance</td>
<td></td>
<td>60 to 81</td>
</tr>
<tr>
<td>- Governance</td>
<td></td>
<td>(inclusive)</td>
</tr>
<tr>
<td>- Remuneration</td>
<td></td>
<td>104</td>
</tr>
<tr>
<td>Directors</td>
<td></td>
<td>66 and 67</td>
</tr>
<tr>
<td>- Directors’ Report</td>
<td></td>
<td>97</td>
</tr>
<tr>
<td>- Shareholdings</td>
<td></td>
<td>97</td>
</tr>
<tr>
<td>Financial instruments</td>
<td></td>
<td>146 to 149</td>
</tr>
<tr>
<td>- Note 27</td>
<td></td>
<td>(inclusive)</td>
</tr>
<tr>
<td>Going concern</td>
<td></td>
<td>62</td>
</tr>
<tr>
<td>Greenhouse gas emissions</td>
<td></td>
<td>33</td>
</tr>
<tr>
<td>Important events</td>
<td></td>
<td>14 to 19</td>
</tr>
<tr>
<td>- Since the end of the</td>
<td></td>
<td>(inclusive)</td>
</tr>
<tr>
<td>financial year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Likely future developments</td>
<td></td>
<td>19</td>
</tr>
<tr>
<td>Results and dividends</td>
<td></td>
<td>12</td>
</tr>
</tbody>
</table>

Political donations
The Company made no political donations during the year (2016: nil).

Research and development
The Group undertakes research and development activities when providing services to its clients. The direct expenditure incurred is not readily identifiable, as the investment is typically included in the relevant project.

Employees
The companies in the Group are equal opportunities employers. The Group considers applications for employment from disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during their employment. The Group provides information to employees through newsletters, video addresses, the Group’s intranet, social media and formal and informal meetings with various groups of employees and management. The Group also conducts engagement surveys to obtain feedback on matters of importance to employees.

The Group operates sharesave schemes for eligible employees and a share incentive plan for all employees, which includes a share-matching element.

Share capital
As at 30 June 2017, the issued share capital of the Company consisted of 97,443,035 ordinary shares of 1 pence each. Details of changes to the ordinary shares issued and of options and awards granted during the year are set out in note 25 to the consolidated financial statements.

Subject to the provisions of the articles of association of the Company (the Articles) and prevailing legislation, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the Directors may decide.

Restrictions on transfer of securities in the Company
There are no restrictions on the transfer of securities in the Company, other than those that are set out in the Articles or apply as a result of the operation of law or regulation. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the Company.

Substantial holdings
As at 20 September 2017, the Company had been notified of the following interests in the share capital of the Company (being voting rights over such share capital), pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Interest^1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard Life Aberdeen plc^2</td>
<td>9.6%</td>
</tr>
<tr>
<td>BlackRock Inc</td>
<td>6.5%</td>
</tr>
<tr>
<td>Brewin Dolphin Limited</td>
<td>5.0%</td>
</tr>
<tr>
<td>Rathbone Investment Management Ltd</td>
<td>4.9%</td>
</tr>
<tr>
<td>Schroders plc</td>
<td>4.8%</td>
</tr>
<tr>
<td>Norges Bank</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

^1 Subject to rounding.

Securities carrying special rights
No person holds securities in the Company carrying special rights with regard to control of the Company.

Rights under employee share schemes
As at 30 June 2017, RBC Trustees (Guernsey) Limited (RBC), as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 130,774 shares (approximately 0.13% of the Company's issued share capital). These shares are made available to satisfy the vesting of LTIP awards and awards of shares to senior management as part of the annual bonus arrangements. RBC does not exercise any voting rights in respect of shares held by the trust. RBC waives its rights to dividends in respect of such shares, other than those relating to the annual bonus arrangements.

As at 30 June 2017, Yorkshire Building Society (YBS) held 1,180,448 shares (approximately 1.21% of the Company's issued share capital) on trust for the benefit of members of the SIP. At the same date, YBS also held 11,674 shares (0.01% of the issued share capital) on trust for the benefit of members of the legacy May Gurney Share Incentive Plan. YBS does not exercise any voting rights in respect of the shares held by the trust. YBS distributes dividends received to beneficiaries under the trust (although beneficiaries may authorise YBS to vote in accordance with their instructions).
As at 30 June 2017, the trustee of the May Gurney Limited Employee Share Ownership Trust and the trustee of the May Gurney Integrated Services PLC Employee Benefit Trust held, respectively, 219,759 and 19,045 shares (in aggregate, approximately 0.25% of the Company’s issued share capital).

These shares are made available to satisfy awards of shares under the Group’s remuneration arrangements. Neither trustee exercises any voting rights in respect of shares held by their respective trust and each waives dividends payable with respect to such shares.

Restrictions on voting rights
No shareholder will, unless the Board otherwise determines, be entitled to vote at any general meeting unless all calls or other sums then payable by the shareholder in respect of that share have been paid or if that shareholder has been served with a disenfranchisement notice.

The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights.

Appointment and replacement of Directors
Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office until the next AGM of the Company after his/her appointment and is then eligible to stand for election.

Each of the Directors will be standing for either election or re-election by members at the 2017 AGM. Further information about the Directors’ skills and experience and the effectiveness of the Board can be found on pages 66 to 69 (inclusive).

The Company may by ordinary resolution, of which special notice has been given, remove any Director before the expiry of the Director’s period of office.

Amendment of Articles
The Articles may be amended by a special resolution of the Company’s shareholders.

Powers of the Directors
Subject to the Articles, applicable law and any directions given by shareholders, the Company’s business is managed by the Board, which may exercise all the powers of the Company.

Powers in relation to the Company issuing its shares
The Directors were granted authority at the AGM on 18 November 2016 to allot shares in the Company (i) up to an aggregate nominal amount of £321,124 and (ii) up to an aggregate nominal amount of £642,249 in connection with a rights issue. The Directors were also granted authority to allot shares (i) non-pre-emptively and wholly for cash up to an aggregate nominal amount of £48,168 and (ii) for the purposes of financing an acquisition or other capital investment up to a further nominal amount of £48,168.

Powers in relation to the Company buying back its shares
The Company may only buy back shares if the Articles do not prohibit it from doing so and it has received the requisite authority from shareholders in general meeting. Although the Articles do not contain any such prohibition, the Company did not request any such authority at its last AGM and does not propose to do so at the forthcoming AGM.

Change of control
The Group’s loan facility agreements with its UK lending banks, the note purchase agreements entered into in 2012 and 2014 in connection with the Group’s US private placements of notes and the Schuldschein loan agreements entered into in May and June 2016 each contain provisions under which, in the event of a change of control of the Company, the Company may be required to repay all outstanding amounts borrowed.

Certain of the Group’s commercial arrangements, including certain of its joint venture agreements, contract bond agreements and other commercial agreements entered into in the ordinary course of business, include change of control provisions.

Certain of the Group’s employee share schemes or remuneration arrangements contain provisions relating to a change of control of the Company. Outstanding options and awards may become exercisable or vest upon a change of control.

There are no agreements between the Company and the Directors providing for compensation for loss of office that occurs as a result of a takeover bid (other than those referred to above).

Branches
Because the Group is a global business, it has activities which operate through branches in certain jurisdictions.

Auditor
The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group’s auditor for the financial year ending 30 June 2018 and a resolution relating to this re-appointment will be tabled at the forthcoming AGM.

AGM
The Company’s 2017 AGM will be held at 12 noon on 17 November 2017 at the Andaz Hotel, 40 Liverpool Street, London EC2M 7QN.

This Directors’ Report was approved by the Board and signed on its behalf by:

Hugh Raven
Company Secretary
20 September 2017
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD
Statement of Directors’ responsibilities

Introduction
The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare the Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

› select suitable accounting policies and then apply them consistently;
› make judgements and estimates that are reasonable and prudent;
› for the Group financial statements, state whether they have been prepared in accordance with IFRS;
› for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
› prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, with respect to the Group financial statements, Article 4 of the IAS Regulation.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing the Strategic Report, the Directors’ Remuneration Report and the Corporate Governance Statement and for ensuring that these comply with applicable laws and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors’ responsibility statement
Each of the Directors, whose names and functions are set out on pages 66 and 67, confirms that to the best of his or her knowledge:

› the financial statements contained in this Annual Report, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
› the management report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure to auditors
Each Director who holds office at the date of approval of this Directors’ Report confirms that, so far as each such Director is aware, there is no relevant audit information of which the auditor is unaware; and the Directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Signed on behalf of the Board by:

Haydn Mursell
Chief Executive
20 September 2017

Bev Dew
Finance Director