Chairman's introduction

Q&A
WITH PHILIP COX CBE

"The Board aims to support and challenge management, whilst also overseeing the Group's governance, systems of risk management and financial performance."

As the Chairman, what is your view on the role of governance?

As the Group continues to grow, it is important that the Board supports and challenges the executive management team, engages with a range of stakeholders, so as to be able to reflect their views in its decision-making, and has the range of skills and experience required to oversee the Group's governance, systems of risk management and financial performance.

Governance

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 applied the principles of, and complied with, the UK Corporate Governance Code (April 2016 edition) (the Code). We will be reviewing our governance structure to ensure that it reflects the requirements of the July 2018 version of the Code (which will apply to the Group's financial year commencing on 1 July 2019).

The contracting sector is a challenging environment – how has the Board led the Group through the year?

The Board's principal focus during the year has been to oversee the delivery of both operational excellence and the Group's financial targets, whilst regularly reviewing its principal risks, our risk appetite and the Group's systems of risk management and internal control.

The challenging market environment means that we must be at the top of our game – the Future Proofing Kier programme demonstrates the Board's commitment to streamlining and further strengthening the Group. In particular, during the year the Board has focused on increasing the Group's cash flow and the resilience of its balance sheet, with the principal objectives of maintaining a sound capital structure and reducing both year-end and average month-end net debt.

The Board is therefore extremely active, with each member having visited a number of the Group's sites during the year, enabling the Board to hear employees' views on a range of matters.

Have there been any changes to the Board during the year?

On 1 August 2018, we announced the appointment of Claudio Veritiero as Chief Operating Officer, a role which we identified as being key to delivering the Future Proofing Kier programme's objectives. We also announced that Nigel Brook and Nigel Turner would both stand down from the Board. I look forward to working with Claudio in his new role and I would like to thank Nigel and Nigel for their hard work and contributions to the Board and the business.

Having completed nine years on the Board, Nick Winser has decided not to offer himself for re-election at the November AGM. Nick has played an important role on the Board, in particular as the Chair of the SHE Committee. I would like to express my thanks to Nick for his support following my appointment as Chairman and, on behalf of the Board, wish him well for the future. Kirsty Bashforth will take over the role of Chair of the SHE Committee with effect from the conclusion of the AGM. I look forward to working with Kirsty in her new role.

What were the key issues identified by the 2018 Board evaluation?

The 2018 Board evaluation confirmed that, overall, the Board continued to perform effectively.

The feedback identified that the Board had, in particular, made good progress with respect to reviewing and developing the Group's strategy, overseeing the management of contract risk and implementing a series of measures designed to reduce the Group's net debt.

Chairman's introduction continued

The Board agreed that its priorities in 2019 would include a continued focus on the reduction of the Group's net debt, a review of the Vision 2020 goals, developing the pipeline of future Board members, increasing diversity within the business and a continued review of the Group's risk management processes.

Further details of the 2018 Board evaluation are set out on page 68.

The Board is accountable for the Group's management of risk. In light of Carillion's insolvency, how comfortable is the Board that it does so effectively?

During the year, the Board reviewed the Group's principal risks and its overall risk appetite and, through the Risk Management and Audit Committee (RMAC), closely monitored how those risks are managed. By way of example, the Board, through the RMAC, commissioned a review of the Group's key commercial controls by KPMG, our Internal Auditor at the time, in light of the importance of contract administration to the Group's operations. The review made a number of proposals to simplify and/or streamline the controls. The Board will oversee management's development of those controls throughout the 2019 financial year. Further details of how the Group manages risk are set out on pages 36 to 43 (inclusive).

Kier received a significant vote against its Directors' Remuneration Report at the 2017 AGM. How has the Remuneration Committee taken this into account?

The Board was disappointed to receive a significant vote against its 2017 Directors' Remuneration Report. The Remuneration Committee understands that the principal concern of shareholders related to the increase in the base salary of the Chief Executive with effect from 1 July 2017. The Remuneration Committee took into account this feedback in its decision not to award the Chief Executive an increase in base salary for the 2019 financial year. Details of the decisions taken by the Remuneration Committee during the year are summarised in the Directors' Remuneration Report on pages 86 to 107 (inclusive).

What engagement with shareholders has the Board had during the year?

During the year, I have met a number of shareholders to discuss a range of matters, including the Group's performance, governance and progress against the Group's strategy. I have found these meetings useful in assisting me to understand shareholders' views, which we have then discussed as a board. At the March 2018 meeting, the Board took the opportunity to assess how it engages with shareholders and other key stakeholders, so as to be able to take into account their interests in its decision-making. Other members of the Board (for example, the Chief Executive, the Finance Director and the Senior Independent Director) have also met a number of shareholders during the year and, following their meetings, reported back to the Board on the issues which were discussed.

Further details about the engagement undertaken by the Board with its key stakeholders during the year are set out on pages 83 to 85 (inclusive).

I look forward to meeting shareholders at the AGM on 16 November 2018.

Philip Cox CBE
Chairman

19 September 2018

Governance in action

Strategic priority	The Board's governance role	What we did in 2018	Outcomes of our actions
Operate a safe and sustainable business	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 32 to 35 (inclusive) and the Safety, Health and Environment Committee report on pages 81 and 82.	› Oversaw a 26% reduction in the Group's reportable accident incidence rate. › Led the culture of 'visible safety leadership', with 122 site visits during the year by Board members. › Challenged management to continue to focus on the health and wellbeing of employees and the management of the Group's environmental risks.	› Assisted in the development of best practice for sharing across the Group. › Demonstrated a 'tone from the top' with respect to safety matters. › Drove a reduction in lost hours through ill health, together with good progress against the Group's environmental targets.
Accelerate growth to be a top three player in our chosen markets	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).	› Dedicated the December 2017 Board meeting to strategy (with regular updates during the year). › Oversaw the re-alignment of the Group's operating model into three reporting lines. › Oversaw the continued simplification of the Group's portfolio.	› Identified a number of actions to drive the delivery of Vision 2020. › Provided clarity to the Group's management and reporting structures. › Facilitated a greater focus on the Group's core activities.
Achieve top quartile performance and efficiency	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 44 to 49 (inclusive).	› Began a Group-wide operational efficiency and streamlining programme – Future Proofing Kier. › Monitored the businesses' performance against a set of formal key performance indicators. › Challenged management to maintain a disciplined approach to working capital.	› Identified opportunities to increase productivity and improve financial performance. › Identified areas within the business for immediate intervention and improvement. › Challenged management to control closely investment in Property and Residential.
Provide sector-leading customer experience	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 Strategy dashboard on pages 28 and 29.	› Oversaw the appointment of a Group Business Development Director from 1 July 2018. › Via executive management, based the June 2018 Leaders' Conference around customer experience. › Reviewed progress against the Group's customer satisfaction targets.	› Provided a senior focal point for the Group's business development activities. › Reinforced the importance of customer service to members of senior management. › Identified good practice and areas for improvement within the business.
Attract and retain highly motivated, high-performing teams	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 69 and 70.	› Reviewed the Group's people strategy and challenged management to increase diversity. › The Nomination Committee reviewed and challenged the senior management succession plan. › Reviewed progress against the Group's diversity targets.	› Confirmed good progress against the strategy and identified risks to its delivery. › Identified potential future members of the Board and any gaps in the plan. › Challenged management to increase the rate of progress.
Embrace innovation and technology across our business	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 Strategy dashboard on pages 28 and 29.	› Appointed a Board sponsor of the Group's innovation focus. › Reviewed examples of innovative practice and proposals to share them throughout the Group. › Monitored the progress of the Group-wide innovation forum.	› Demonstrated a 'tone from the top' with respect to innovation. › Challenged management to drive innovation throughout the Group. › Identified ways of promoting the forum's effectiveness.

Board statements

The Company is subject to the UK Corporate Governance Code (April 2016 edition). A full version of the Code can be found on the Financial Reporting Council's website: www.frc.org.uk. Under the Code, the Board is required to make a number of statements. These statements are set out in the following table:

Requirement	Board statement	Where to find further information
Compliance with the Code	The Directors confirm that, throughout the 2018 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.	'Explanation of non-compliance with the Code' below. 'Application of the main principles of the Code' on page 61.
Going concern basis	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 2018 financial statements.	Financial review on pages 50 to 56 (inclusive). Strategic Report on pages 1 to 56 (inclusive). Principal risks and uncertainties on pages 38 to 43 (inclusive). 'Board statements – Going concern' in the Risk Management and Audit Committee report on page 75.
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 30 June 2021, taking into account the Group's current position and certain of the principal risks and uncertainties set out on pages 38 to 43 (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.	Principal risks and uncertainties on pages 38 to 43 (inclusive). 'Board statements – Viability statement' in the Risk Management and Audit Committee report on page 76.
Robust assessment of the principal risks facing the Group	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 their appetite with respect to these risks and, via the RMAC, considered the systems required to mitigate and manage them.	Principal risks and uncertainties on pages 38 to 43 (inclusive). 'Assessment of principal risks and risk appetite' in Accountability on page 71.
Annual review of systems of risk management and internal control	During the 2018 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.	'Systems of risk management and internal control – Effectiveness review' in the Risk Management and Audit Committee report on page 74.
Fair, balanced and understandable	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.	'Board statements – Fair, balanced and understandable review' in the Risk Management and Audit Committee report on page 75.

Explanation 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 Philip Cox, Constance Baroudel and Adam Walker 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 will be appointed for an initial three-year term.

Application of the main principles of the Code

During the 2018 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 eight 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 62 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 In conjunction with the Company Secretary, the Chairman sets the agendas for and manages Board meetings.

A4 Role of the Non-Executive Directors The Chairman promotes an open and constructive discussion during meetings of the Board. The Non-Executive Directors provide objective, rigorous and constructive challenge to management.

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 69 and 70.

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 in advance with the Chairman. During the 2018 financial year, there were no changes to the Chairman's other directorships.

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 66 for details of Philip Cox'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 2018 financial year, the Board undertook an evaluation of its own performance. Details of the evaluation can be found on page 68.

B7 Re-election of Directors All Directors in office at the date of this Annual Report, other than Nick Winser, will be subject to re-election by shareholders at the 2018 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 56 (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 80 (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 86 to 107 (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 other stakeholders and the views of shareholders and other stakeholders are discussed at Board meetings. Please see Relations with shareholders and other stakeholders on pages 83 to 85 (inclusive).

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.

Leadership

Highlights

- Continued engagement with the Board's key stakeholders
- Continued focus on the Executive Director succession plan
- Undertook a number of visible leadership tours

For further information on Kier's strategy and performance, please turn to pages 1 to 56 (inclusive).

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:

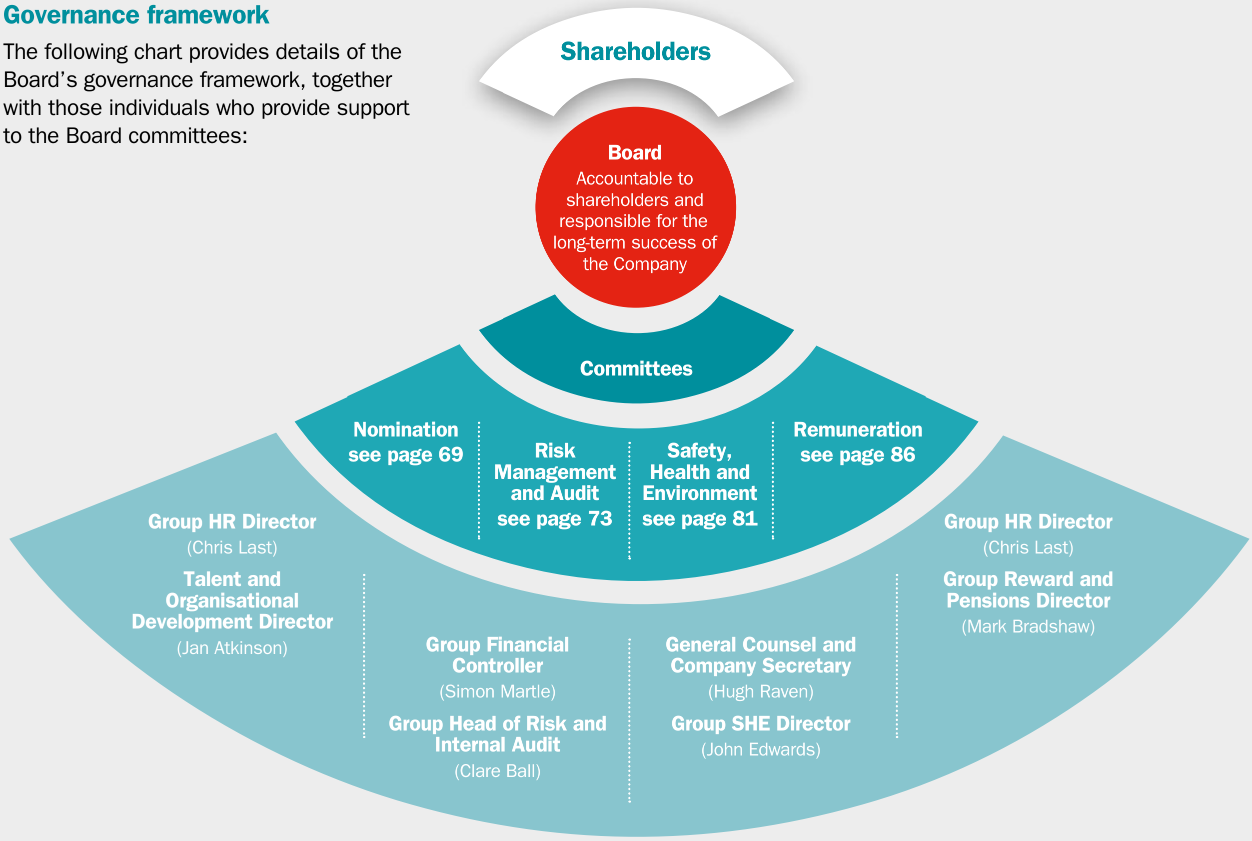
- the Group's strategy;
- mergers, acquisitions and disposals of a material size and nature;
- material changes to the Group's structure and capital;
- the payment of dividends;
- the approval of material Group policies; and
- material contract tenders and material investments.

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 64 and 65.

Governance framework

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



Board and committee meeting attendance

Board and committee meetings are typically held at our new London office in Foley Street, Tempsford Hall or at one of the Group's regional offices or sites. For example, the August 2017 meeting was held at the Financial Shared Services Centre in Manchester and the August 2018 meeting was held at the Glasgow office. Board meetings were held in each month of the financial year, other than July, October, January and April.

The number of formal Board and committee meetings attended by each Director during the 2018 financial year is as follows:

Director	Board (maximum 8)	Nomination Committee (maximum 3)	Remuneration Committee (maximum 4)	Risk Management and Audit Committee (maximum 4)	Safety, Health and Environment Committee (maximum 4)
Philip Cox	8	3	4	–	–
Justin Atkinson[1]	8	3	3	4	3
Constance Baroudel	8	3	4	4	4
Kirsty Bashforth	8	3	4	4	4
Nigel Brook	8	–	–	–	–
Bev Dew	8	–	–	–	–
Haydn Mursell	8	–	–	–	–
Nigel Turner	8	–	–	–	–
Claudio Veritiero	8	–	–	–	–
Adam Walker	8	3	4	4	–
Nick Winser[2]	8	2	4	4	4
Phil White[3]	–	–	–	–	–

Notes:

1 Justin Atkinson did not attend the December 2017 Remuneration Committee and Safety, Health and Environment Committee meetings due to a prior business commitment. Mr. Atkinson reviewed the papers for the meetings in advance and provided his comments.

2 Nick Winser did not attend the November 2017 Nomination Committee meeting due to a prior business commitment. Mr. Winser reviewed the papers for the meeting in advance and provided his comments.

3 Phil White retired from the Board with effect from 31 August 2017 and did not attend the August Board meeting.

The Board and its committees held a number of other meetings (including via teleconference) 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.

The Board's role in the Group's culture

The Board recognises the important role that it plays in overseeing the Group's culture and members of the Board are open and accountable to the Group's key stakeholders, actively engaging with a number of them during the year. A summary of how the Board engages with shareholders and other stakeholders is set out on pages 83 to 85 (inclusive).

The Board also empowers the HR, SHE, compliance and internal audit functions to promote and embed the Group's culture, with representatives from each of these functions attending meetings of the Board or its committees to provide updates on the steps they have taken to do so. The Board oversees the Group's employee engagement survey, discussing the results and challenging management to seek higher levels of engagement year-on-year.

During the year, members of the Board undertook a total of 122 visible leadership tours to the Group's sites. In addition to demonstrating the Board's support for the strategic objective of operating a safe and sustainable business, these visits provided the Board members with an excellent opportunity to engage with employees and the supply chain.

Philip Cox on a tour of the Foley Street development in central London.

Board of Directors

1 – Philip Cox CBE (66)

Chairman

Tenure on Board: 1 year, 2 months

Independent: Yes (on appointment)

Committee memberships: N R

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
- Formerly Chief Executive of International Power, Senior Independent Director of Wm Morrison Supermarkets plc and 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 since May 2015

5 – Justin Atkinson (57)

Senior Independent Director

Tenure on Board: 2 years, 11 months

Independent: Yes

Committee memberships: N R RA S

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, where he previously held the roles of Group Finance Director and Chief Operating Officer
- Significant operational and financial experience through his previous and current roles
- 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 Forterra since April 2016
- Non-Executive Director of Sirius Real Estate since March 2017 and James Fisher & Sons since May 2018
- A member of the Audit Committee of the National Trust since June 2015

9 – Nick Winser CBE (58)

Non-Executive Director

Standing down following the AGM on 16 November 2018

Tenure on Board: 9 years, 6 months

Independent: Yes

Committee memberships: N R RA S

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 since January 2015
- President of the Institution of Engineering and Technology since October 2017
- Chairman of the Power Academy
- Chair of the MS Society since January 2017

2 – Haydn Mursell (47)

Chief Executive

Tenure on Board: 7 years, 10 months

Independent: No

Tenure as Chief Executive: 4 years, 2 months

Committee memberships: None

Relevant skills and experience:
- A chartered accountant, having trained and qualified at KPMG in London
- Significant financial and sector experience through previous senior finance roles at Balfour Beatty and Bovis Lend Lease
- Operational leadership experience gained through previous responsibility for the Property business
- Detailed knowledge of the Group gained through previous role as Finance Director
- Strong track record in mergers and acquisitions in his current and former roles

Principal current external appointments:
- None

3 – Bev Dew (47)

Finance Director

Tenure on Board: 3 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

4 – Claudio Veritiero (45)

Chief Operating Officer

Tenure on Board: 3 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
- Significant experience of mergers and acquisitions, through both his former role as Strategy and Corporate Development Director and other roles

Principal current external appointments:
- None

6 – Constance Baroudel (44)

Non-Executive Director

Tenure on Board: 2 years, 2 months

Independent: Yes

Committee memberships: N $\boxed{R}$ RA S

Relevant skills and experience:
- Significant experience of accounting and financial matters through a number of senior management roles
- In-depth knowledge of operational performance and delivery matters
- Experience of developing corporate strategy through her previous role as Group Director of Strategy and Operational Performance at First Group
- Previous experience as Chair of the Remuneration Committee at Synergy Health

Principal current external appointments:
- Divisional Chief Executive, Medical & Environmental Sector of Halma since September 2018

7 – Kirsty Bashforth (48)

Non-Executive Director

Tenure on Board: 4 years

Independent: Yes

Committee memberships: N R RA S

Relevant skills and experience:
- In-depth global, commercial, safety and risk management and operational experience, following 24 years at BP
- Strong track record in 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:
- Non-Executive Director of Serco since September 2017
- Non-Executive Director of GEMS MENASA Holdings Limited and Chair of the Remuneration & People Committee since April 2018

8 – Adam Walker (50)

Non-Executive Director

Tenure on Board: 2 years, 8 months

Independent: Yes

Committee memberships: N R $\boxed{RA}$

Relevant skills and experience:
- A chartered accountant, having trained and qualified at a predecessor firm of Deloitte
- Formerly Group Finance Director of GKN plc from 2014 to 2017, where he previously held the additional role of Chief Executive of GKN Land Systems
- A wealth of experience in financial matters, both through his current role at IHS Holding Limited and in his previous roles as finance director at three listed companies
- Detailed knowledge of systems of risk management and internal control, obtained through previous and current executive roles

Principal current external appointments:
- Executive Vice President and Chief Financial Officer of IHS Holding Limited since November 2017

10 – Hugh Raven (46)

General Counsel and Company Secretary

Tenure: 8 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

Board committees key

N Nomination Committee

R Remuneration Committee

RA Risk Management and Audit Committee

S Safety, Health and Environment Committee

$\boxed{}$ Chair of the Committee

Changes to the Board of Directors

- Phil White retired as Chairman and from the Board on 31 August 2017;
- Nigel Brook and Nigel Turner stood down from the Board on 1 August 2018;
- Claudio Veritiero was appointed as Chief Operating Officer on 1 August 2018;
- Nick Winser will not stand for re-election at the 2018 AGM; and
- Kirsty Bashforth will become Chair of the SHE Committee with effect from the conclusion of the 2018 AGM.

Highlights

- Completion of Philip Cox's induction
- Completion of actions arising from the 2017 Board effectiveness review
- Challenged management to increase diversity within the business

For information on how the Nomination Committee operates, please turn to pages 69 and 70.

Director induction

All Directors undertake a comprehensive and tailored induction programme on joining the Board. The purpose of the induction programme is to provide directors with an in-depth understanding of the business, its strategic priorities and risks. By way of example, a summary of Philip Cox's induction is as follows:

Meetings with the previous Chairman
▼
Meetings with individual Board members and Chairs of Board committees
▼
Briefing from the General Counsel and Company Secretary
▼
Briefings from the Company's advisers, including the internal and external auditors, corporate brokers and corporate finance advisers
▼
Meetings with major shareholders
▼
Meetings with members of senior management and site visits across the business

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 made available to the Board during the year included seminars or presentations relating to:

- Brexit;
- emerging technologies and cyber security;
- the EU Market Abuse Regulation;
- corporate governance developments;
- executive remuneration; and
- corporate reporting and audit updates.

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. As at 19 September 2018, none of the Executive Directors served on the boards of other companies.

The Nomination Committee remains satisfied that all Non-Executive Directors have sufficient time to meet their commitments to the Company. The major commitments of the Directors are outlined on pages 64 and 65.

Re-election of Directors/independence

All Directors, other than Nick Winser, will offer themselves for re-election at the 2018 AGM. The Board considers that each of the Non-Executive Directors who is being offered for re-election is independent.

Board composition

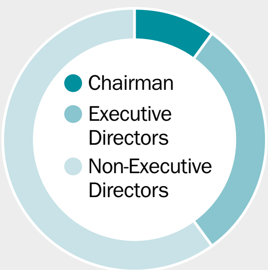
As at the date of this Annual Report, the Board comprises nine Directors, of which six are Non-Executive Directors (including the Chairman) and three are Executive Directors.

During the 2018 financial year:

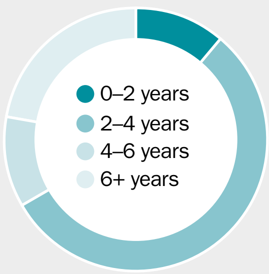
- Phil White retired as Chairman with effect from 31 August 2017; and
- Philip Cox took over the role of Chairman on 1 September 2017.

On 1 August 2018, we announced that Nigel Brook and Nigel Turner would stand down from the Board with immediate effect and that Claudio Veritiero had been appointed to the role of Chief Operating Officer.

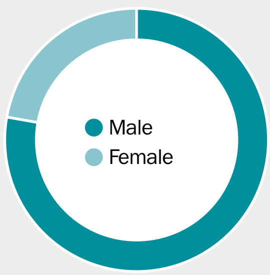
Board composition



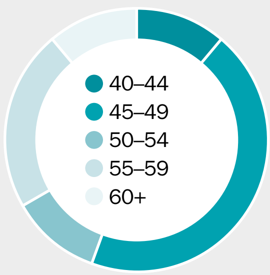
Board tenure



Board balance



Board age



2017 Board evaluation – progress against action plan

The 2017 Board evaluation highlighted a number of areas of focus for the Board in 2018. A summary of progress against these areas is as follows:

Area of focus	Specific action	Progress made
Continue to develop good working relationships between Board members	› Board members to accompany each other on visible leadership tours › Agree a schedule of formal and informal Board dinners	› A number of joint tours were undertaken during the year › A schedule was agreed and a number of dinners took place during the year
Strategy	› Hold a two-day Board meeting to discuss progress against Vision 2020	› Held in December 2017. The Board agreed a number of follow-up actions to facilitate continued progress
Board administration	› Continue to refine the Board pack to ensure that it provides the right level of information › Ensure that meeting agendas provide appropriate flexibility to allow a full debate on key issues	› Ongoing. The Board concluded that good progress had been made during the year › The Chairman and the Company Secretary engage regularly to ensure that sufficient time is allowed for each agenda item
Remuneration Committee	› Committee Chairs and the Chief Executive to engage on executive remuneration matters (in particular, following the shareholder vote at the 2017 AGM)	› Ongoing. Good progress made during the year. Please see the Directors' Remuneration Report on pages 86 to 107 (inclusive) for further details of the Executive Directors' remuneration
Nomination Committee	› Establish a clear list of priorities for the Committee in the 2018 financial year › Formally review the skills, knowledge, experience and diversity of the Board › Continue to review the executive management succession plan	› The Committee approved an 'annual planner', setting out priorities for the year › A formal review was undertaken by the Nomination Committee at its meeting in December 2017 › The Committee reviewed the plan at its meetings in November 2017 and June 2018
Risk Management and Audit Committee	› Continue to oversee the review of the Group's risk management framework and its implementation	› Ongoing. Please see the Risk Management and Audit Committee report on pages 73 to 80 (inclusive) for further information
Safety, Health and Environment Committee	› Increase the Committee's focus on health and wellbeing matters relevant to the Group's employees › Increase the Committee's focus on environmental matters relevant to the Group	› The Committee discussed the Group's health and wellbeing strategy at its meetings in December 2017 and March 2018 › The Committee discussed environmental matters at a number of its meetings in the year

Effectiveness continued

2018 Board evaluation

The process

The 2018 Board evaluation was led by the Chairman, with the assistance of the Company Secretary. The evaluation focused on a number of areas, including:

Effectiveness of Board decision-making	Allocation of the Board's time	Operation of the Board committees	Engagement with stakeholders	Risk appetite and management of risk	Board culture

April 2018
Completion of questionnaire

A questionnaire was sent to each Board member, completed and returned to the Company Secretary

May 2018
Evaluation of responses

The Company Secretary compiled a report based on the feedback received from Board members and discussed the draft conclusions with the Chairman, together with an action plan

May 2018
Feedback relating to the Chairman

The Senior Independent Director met the Chief Executive, on behalf of the Executive Directors, the Company Secretary and the Non-Executive Directors to obtain feedback relating to the Chairman

June 2018
Feedback to the Chairman

The Chairman met the Senior Independent Director to discuss feedback relating to the Chairman's performance

June 2018
Final report and action plan

The Company Secretary prepared a final evaluation report and action plan, which were approved by the Board at its June meeting

Conclusions

The 2018 Board effectiveness review confirmed that, overall, the Board continues to operate effectively. There was also a recognition that the Board had faced a number of challenges during the year, in large part caused by the markets and environment in which the Group operates, and had managed these effectively via constructive and robust debate. The Board also agreed that, so as to continue to provide effective leadership, there were a number of areas of focus in the 2019 financial year, including the following:

Area of feedback	Specific areas of focus in 2019	Why?
Reporting/ financial matters	› Continue to ensure the timely reporting of key risk issues	› Timely reporting of the key issues facilitates effective decision-making
	› Continue to challenge management to manage net debt and working capital effectively	› The Group's year-end and average month-end net debt increased in the 2018 financial year
Risk	› Continue to review the Board's risk appetite	› To set the Group's risk management framework
	› Following the review of the Group's key commercial controls, oversee the implementation of the action plan	› To facilitate effective contract administration across the Group
Succession planning	› Challenge management to develop the pipeline of future Board members and increase diversity in the business	› To support the delivery of the Group's plans for future growth
	› Increase the Board's engagement with individuals identified on the Board succession plan	› Provides the Board with an opportunity to assess, and review the development of, the individuals
Strategy	› Identify (i) the Group's core and non-core assets and (ii) the strategy with respect to each set of assets	› Enables management to focus on the growth of the core assets
	› Continue to develop the Group's strategy after 2020	› Provides a clarity of purpose and direction for the Group

Nomination Committee report

"The Committee plays a vital role in the identification and development of talented individuals to lead the Group in the future."

Chair
Philip Cox CBE

Other Committee members
Justin Atkinson

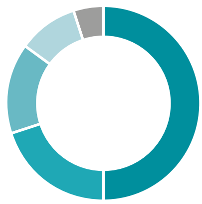
Constance Baroudel

Kirsty Bashforth

Adam Walker

Nick Winser CBE

Allocation of time



Dear shareholder

I am pleased to present the Nomination Committee report, which provides a summary of the Committee's activities during 2018.

Role

The role of the Committee includes:

- reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes;
- evaluating the balance of skills, knowledge, experience and diversity on the Board; and
- considering succession planning for the Board and other senior executives, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future.

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.

At the invitation of the Committee, any other Director may attend meetings of the Committee. During the year, the Chief Executive, the Group HR Director and the Group Head of Talent and Organisational Development attended meetings to discuss Executive Director succession planning.

The secretary of the Committee is the Company Secretary, Hugh Raven.

The Committee met formally three times during the year; details of attendance at those meetings are set out on page 63. In addition, the Committee held a number of informal discussions on specific matters during the year.

Committee performance evaluation

2018 – progress against 2017 evaluation

The 2017 Board evaluation identified the following as being areas of focus for the Committee in the 2018 financial year:

- the need to establish a clear set of priorities for the Committee;
- a requirement formally to review the skills, knowledge, experience and diversity of the Board; and
- a need for regular reviews of the Executive Director and senior management succession plan.

The 2018 Board evaluation confirmed that good progress had been made with respect to each of these objectives. Details of the progress made by the Committee are set out in this report.

2019 – principal areas of focus

Following the 2018 Board evaluation, the Committee's principal areas of focus for the 2019 financial year include:

- challenging management to continue to develop the pipeline of future Board members and increase diversity in the business; and
- increasing the Board's engagement with individuals identified on the Board succession plan.

Principal activities – 2018 financial year

A summary of the principal matters considered by the Committee during the year is as follows:

Diversity

Board diversity policy

The Board recognises the benefits of diversity as an important element in its effectiveness, including diversity of skills, background, knowledge, experience and perspective, amongst a number of factors. In particular, the Board recognises the role that gender has to play in contributing to the Board's perspective and decision-making.

Accordingly, at its meeting in February 2018, the Committee reviewed a diversity policy for the Board. The policy was then approved by the Board in March 2018. The principal objective of the policy is to ensure that, when reviewing and evaluating its composition, the Board takes into account diversity, including diversity of gender, amongst other relevant factors.

Whilst all appointments to the Board will be made on merit, the policy contains a number of specific commitments, including:

- the Committee will brief executive search firms to review candidates from a variety of backgrounds and produce candidate lists which fully reflect the benefits of diversity, giving priority to those firms which have signed up to the Voluntary Code of Conduct for Executive Search Firms;

Nomination Committee report continued

- the Committee will consider candidates for Non-Executive Director roles from a wide pool of individuals, including those with little or no previous listed company board experience but whose skills and experience will add value to the Board;
- the Company will develop and implement policies, programmes and initiatives which are designed to promote diversity and inclusion at all levels of the organisation. Please see 'Action taken during 2018' below for further information; and
- recognising the FTSE350 target of 33% female representation both on boards and senior leadership teams by 2020, the Board is committed to increasing the number of female members of the Board and the Company's senior management.

Action taken during 2018

The Committee has overseen various programmes and initiatives which management has introduced to increase the number of women employees at all levels of the organisation. These include:

- challenging local management to ensure that, when recruiting, candidate lists demonstrate sufficient gender diversity;
- agreeing specific objectives on gender diversity with senior leaders;
- providing specific guidance for leaders on career coaching for female talent;
- identifying 'fast potential' female talent and providing mentoring and development programmes to those identified; and
- reviewing the graduate recruitment programme.

At the date of this Annual Report, the percentage of Executive Directors and direct reports who are women is 19% (2017: 15%).

Executive Director/senior management succession planning

In the 2017 Annual Report, we summarised some of the key elements of the programme which management had implemented (led by the Group HR Director and the Group Head of Talent and Organisational Development) to identify a pipeline of future Board members. During the year, management has continued to monitor and develop this pipeline, reporting on progress to the Committee. A summary of some of the key actions taken during the year is as follows:

Action	Why?	Next steps
Selected members of the succession plan attended external leadership development programmes	To provide the individuals with an objective perspective on leadership across a range of issues	Assess the extent to which the programmes have assisted in the individuals' development
Assessment of new members of the succession plan by business psychologists (Deloitte)	To obtain an objective assessment of the individuals' strengths and development areas	Draft and monitor progress against tailored development plans prepared for these individuals
Providing members of the succession plan with increased managerial responsibilities	To assess the individuals' ability and potential to respond to new challenges and responsibilities	Assess how effectively the individuals have responded to the increased responsibilities

Board changes

One of the Committee's key responsibilities is to review the structure and composition of the Board. At the same time as announcing the Future Proofing Kier programme, the Committee took the opportunity to review the composition of the Board and concluded that, so as to oversee the delivery of the benefits of the programme, it would recommend the appointment of a Chief Operating Officer to the Board. The Committee identified Claudio Veritiero as having the necessary skills for the role and he was appointed with effect from 1 August 2018. Prior to making its recommendation, the Committee:

- agreed a role profile for the Chief Operating Officer;
- agreed the interaction between the Chief Executive and the Chief Operating Officer;
- assessed Claudio Veritiero's experience for the role;
- defined the interaction between the Chief Operating Officer and senior management within the business; and
- reviewed the changes to the structure of the Group's senior management team which followed the introduction of the new role.

As a consequence of the appointment of the Chief Operating Officer, the roles of Executive Director – Construction and Infrastructure Services and Executive Director – Developments, Property and Business Services were no longer considered necessary. Nigel Brook and Nigel Turner therefore stood down from the Board with effect from 1 August 2018.

Having completed nine years on the Board, Nick Winser will not be standing for re-election at the November AGM. In light of the range of skills and experience on the Board, the Committee concluded that there is no immediate need to appoint an additional Non-Executive Director. The Committee also concluded that, in light of her experience in SHE matters, it would be appropriate to recommend that the Board appoint Kirsty Bashforth to the role of Chair of the SHE Committee with effect from the conclusion of the AGM.

Non-Executive Directors – Board committees/experience

At its meeting in February 2018, the Committee reviewed the balance of skills and experience of the Non-Executive Directors.

The Committee concluded that there was a range of experience across the Non-Executive Directors in a number of areas, including risk management, strategy development, SHE issues, corporate finance, accounting issues and change management. The Committee also concluded that members of the Board currently had relatively limited experience of business disruption issues and digital systems. The Committee agreed that, when considering future non-executive appointments, it would take into account the conclusions of its review.

Conclusion

I will be available to answer any questions about the Committee, our work and how we operate at the AGM on 16 November 2018.

Philip Cox CBE
Chair of the Nomination Committee

19 September 2018

Highlights

- Oversaw the continued good progress of the transition to a new, integrated Oracle ERP system
- Systems of risk management and internal controls assessed as being effective overall
- Continued focus on the Group's management of risk, in light of its plans for future growth

For further information on how the Group manages risk, please turn to the Risk Management and Audit Committee Report on pages 73 to 80 (inclusive).

Systems of risk management and internal control

General

The Board has ultimate responsibility for the Group's systems of risk management and internal control, including those established to identify, manage and monitor risk.

The Board has delegated the responsibility for overseeing management's implementation of those 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 systems and controls which are designed to manage those risks. Management reviews these systems and controls to ensure that they remain effective to support the Group's plans for future growth. The Board and the RMAC oversee the steps taken by management.

A summary of the key elements of the Group's risk management framework is set out on pages 36 and 37.

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.

Assessment of principal risks and risk appetite

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 various stages of the review process undertaken in 2018 is as follows:

August 2017

Board discussion about its risk appetite and the Group's risk management framework

December 2017

Further Board discussion about its risk appetite in the context of its review of the Group's strategy

January – March 2018

Meetings with the Executive Directors to assess their risk appetite against the Group's six strategic priorities

April and May 2018

Business risk measurement metrics and tolerance discussed with the Executive Directors

June 2018

Meeting of the Executive Directors to discuss specific business risks

Board discussion about its appetite for contract risk by contract type

July and August 2018

Drafting of the 'Principal risks and uncertainties' section of this Annual Report

September 2018

RMAC and Board approval of the sections of this Annual Report relating to risk management

Further information about the Group's principal risks and uncertainties is set out on pages 38 to 43 (inclusive) of the Strategic Report.

Accountability continued

Financial reporting

The Group has clear policies and procedures which are designed 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 and Group levels.

Over the past few years, the Group has introduced:

- the Oracle ERP system; and
- the Finance Shared Service Centre, based in Manchester, which produces the base or core information on which the Group's financial statements are produced (via the Oracle ERP system).

Each business monitors its financial performance, using the Group's finance manual. Following the conclusion of each quarter of the financial year, each business will conduct a formal 'quarterly review', the results of which, in turn, are reported to the Board. The Board then oversees the production of the Group's interim and full-year financial results, reporting them in March and September, respectively, each year.

By way of example, a summary of the process for preparing the full-year 2018 results is:

July and August

The business produces year-end packs for central review

August

Central consolidation process and drafting the Group's financial statements

August and September

Audit close-out meetings, RMAC review and Board approval

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.

These statements and the Board's statement relating to its assessment of the Group's principal risks and uncertainties are set out on page 60.

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 75 and 76. In conducting this work, the RMAC acts on behalf of the Board and its activities remain the responsibility of the Board.

Risk Management and Audit Committee report

"The Committee plays an important role in overseeing the Group's systems of risk management and internal control and in ensuring transparent reporting to shareholders."

Chair
Adam Walker

Other Committee members
Justin Atkinson
Constance Baroudel
Kirsty Bashforth
Nick Winser CBE

Allocation of time

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 2018 financial year.

The construction and related sectors are inherently risky, with a high level of judgement applied to financial outcomes. Effective risk management is essential, as demonstrated by a number of high profile corporate failures this year.

Kier continues to develop its systems of risk management and internal control and the Committee continues to work with management and both the internal and external auditors to ensure that they are effective. During the year, we strengthened our internal risk management team and appointed Grant Thornton as our co-sourced internal auditor.

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 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 having been the Chief Financial Officer of three UK listed companies in the last 15 years and now the Chief Financial Officer of IHS Holding Limited, I am considered by the Board to have recent and relevant financial experience and competence in accounting and auditing. The Committee as a whole 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 sector through his former roles with Keller;
- Constance Baroudel: has experience of the risks associated with strategy implementation;
- Kirsty Bashforth: has strong global, commercial, safety and risk management and operational experience through her former role at BP and as a non-executive director of Serco; and
- Nick Winser: a qualified civil engineer, has significant experience in the contracting sector and health and safety risk management through his former role at National Grid.

Please see pages 64 and 65 for further details of the Committee members' experience.

During the year, the following individuals were also in attendance at Committee meetings:

- the Finance Director;
- other members of the Board, where appropriate – for example, the Chairman and the Chief Executive attended the September 2017 and March 2018 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 and, subsequently, Grant Thornton for internal audit matters.

Outside the formal meetings, I met members of management (including the Finance Director), PwC, KPMG and, following their appointment, Grant Thornton 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 those meetings are set out on page 63. Following those meetings, I provided the Board with an update on the principal matters arising.

Risk Management and Audit Committee report continued

Committee performance evaluation

2018 – progress against 2017 evaluation

The 2017 Board effectiveness review identified the following as key areas of focus for the Committee in the 2018 financial year:

- ensuring that the Group's systems of risk management and internal control continue to support the Group's growth. Please see 'Systems of risk management and internal control – Effectiveness review' below; and
- working with PwC to continue to ensure a rigorous and robust approach to the annual audit, for example in relation to significant judgements made by management. As an illustration of this approach, the Committee worked with PwC prior to the Group's post-close trading update in July 2018 to obtain PwC's views on certain matters prior to the formal commencement of the 2018 audit.

2019 – principal areas of focus

Following the 2018 Board evaluation, the Committee's principal areas of focus for the 2019 financial year include:

- the timely reporting of key risk issues (in particular, those which relate to any underperforming contracts); and
- the implementation of the actions arising from the key commercial controls review undertaken by KPMG in the 2018 financial year.

In addition, and following receipt of the letter from the Financial Reporting Council (the FRC) referred to under 'Engagement with the FRC – FRC Corporate Reporting Review' on page 78, the Committee will oversee the implementation of any recommendations which the FRC may make.

Principal activities – 2018 financial year

The Committee met formally four times during the year. The principal agenda items at those meetings were as follows:

September 2017

Review of the Group's 2017 results (and ancillary matters)

The 2017 final dividend

December 2017

Evaluation of the effectiveness of the internal and external auditors

Risk management

March 2018

Review of the Group's 2018 interim results (and ancillary matters)

The 2018 interim dividend

June 2018

The 2018 external audit plan

The 2019 internal audit plan

Approving revised non-audit fee and whistleblowing policies

Risk management

Certain other matters are considered regularly by the Committee during the year. These include:

- non-audit fees incurred by the external auditor;
- whistleblowing and compliance updates;
- progress against the internal audit plan; and
- corporate reporting and governance developments.

Systems of risk management and internal control

General

Information on how the Group manages risk, including a description of the principal aspects of the Group's systems of risk management and internal control, is set out on pages 36 to 43 (inclusive).

Effectiveness review

The Code requires the Board, at least annually, to conduct a review of the effectiveness of the Group's systems of risk management and internal control. The Board's statement about this review is set out on page 60.

At its meeting in September 2018, the Committee reviewed management's assessment of the key elements of these systems and confirmed their overall effectiveness, taking into account the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Business Reporting (September 2014). In forming its conclusion, the Committee noted, in particular, that:

- of the 12 internal audits completed during the year, only one was marked as 'red';
- the transition to the integrated Oracle ERP system, together with the Finance Shared Services Centre, had standardised financial reporting procedures across the Group to a material extent;
- the integration of risk considerations into the Board's review of the Group's strategy (for example, at its meeting in December 2017);
- the discussions held by the Board with respect to its risk appetite; and
- the Board's specific focus during the year on contract risk management.

Whistleblowing helpline

The Group makes available an externally-hosted, confidential whistleblowing helpline which employees can call if they have any concerns that they would like to raise. Any such concerns are then investigated. Following the appointment of a new helpline provider in 2017, the Group Compliance function continued its programme to raise awareness of the facility. At each Committee meeting during the year, the Committee reviewed reports which provided details of the issues reported to the helpline and how management had investigated them. No issues which were material in the context of the Group were reported to the helpline or via other means during the year.

Board statements

Introduction

Under the Code, the Board is required to provide a number of statements. These statements are set out on page 60.

For further information on the Committee's work to support the Board's statement on the Group's systems of risk management and internal control, please see 'Systems of risk management and internal control – Effectiveness review' on page 74.

The Committee's work with respect to the 'fair, balanced and understandable', 'going concern' and 'viability' statements is described below.

Fair, balanced and understandable review

At its meeting in September 2018, the Committee noted the 'fair, balanced and understandable' statement and the work undertaken to support it, which included:

Who?	How assurance was provided
Annual Report working group	› The working group comprised senior individuals who drafted the Annual Report › The group held regular meetings to discuss material disclosure items › The working group members reviewed the sections drafted by them in light of the 'fair, balanced and understandable' requirement
Key contributors to the Annual Report	› Certain key contributors to sections of the Annual Report (for example, Managing Directors and Finance Directors within the business) signed a declaration confirming the accuracy of the information provided
External support	› Provided by PwC, FutureValue, a corporate reporting consultancy, and Mercer, who reviewed the Directors' Remuneration Report
The Committee and the Board	› Drafts of the Annual Report were circulated to individual members of the Board, the Committee and the full Board for review › Material disclosure items were discussed at the Committee's meeting in September 2018

Going concern

At its meeting in September 2018, the Committee noted the going concern statement and the principal aspects of the review process conducted to support it, which included:

Going concern element	How assurance was provided
Sources of funding	› Reviewing the Group's available sources of funding and, in particular, testing the covenants and assessing the available headroom using a range of assumptions
Cash flow	› Reviewing the short, medium and long-term cash flow forecasts in various material downside scenarios
Current and forecast activities	› 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
Bonding facilities	› Assessing the level of available bonding facilities, which are considered necessary to support the Group's ability to tender and deliver future growth

Risk Management and Audit Committee report continued

Viability statement

As they have done in previous years, the Directors have chosen to consider the prospects of the Group over a three-year period ending 30 June 2021, as they consider it to be a period over which they are able to forecast the Group's performance with reasonable certainty, principally because:

- a number of programmes relating to the Group's key projects, which are important factors in an assessment of the Group's performance, operate over a period of up to approximately three years;
- the visibility of the Group's secured work and bidding opportunities can reasonably be assessed over a three-year period; and
- a number of the Group's businesses produce business plans over a period of approximately three years.

At its meeting in September 2018, the Committee noted the viability statement and the work undertaken to support it. The Committee also noted that management had engaged external advisers to undertake a review of its process and methodology. The following table summarises this process, the stress-testing scenarios reviewed and the key mitigating actions applied:

Process	› identify the principal risks and uncertainties relating to the Group; › identify a number of stress-testing scenarios, together with mitigating actions for each of those scenarios; and › draft the financial forecasts, reflecting certain assumptions with respect to the Group's principal finance facilities (for example, their availability and the Group's compliance with covenants), and apply the stress-testing scenarios to them; and › draft the viability statement, having taken into account the financial performance and scenarios modelled.
Stress-testing scenarios	› loss-making contracts having a significant impact on the Group's reported profit and cash over the three-year period; › Buildings' turnover decreasing 15% year-on-year in the 2019, 2020 and 2021 financial years; › Utilities not obtaining forecast contract extensions and new work in the water sector; › gross margins decreasing materially over the three-year period; › a material decline in the property market in the 2019 financial year, following Brexit, causing the Property business' profits to decrease to 20% of its forecast for the 2021 financial year; › a material decline in the house-building market in the 2019 financial year, following Brexit, causing significant volume reductions in the Residential business in the 2019 and 2020 financial years; › payment terms across the Group tightening over the 2019 and 2020 financial years; and › the supplier finance scheme no longer being available to Kier from January 2019 and, following the repayment of the Schuldschein and the US private placements of notes, no new financing being secured.
Key mitigating actions	› overhead and cost reduction programmes delivering significant cash savings over the three-year period; › capital expenditure being reduced significantly over the three-year period; › the sale of non-core businesses; and › stabilising investment in Property and Residential.

Internal audit

Internal audits – 2018 financial year

During the year, the Committee conducted a formal tender process to identify a new provider of co-sourced internal audit services. The process involved four firms, each of which was invited to respond to a detailed 'request for proposal'. Following meetings between representatives of the firms, management and members of the Committee, Grant Thornton were selected and appointed with effect from 1 January 2018 to replace KPMG. Grant Thornton and KPMG then worked together to ensure an orderly transition of the 2018 internal audit plan.

During the year, the Committee monitored progress against the 2018 internal audit plan, which was approved by the Committee at its June 2017 meeting. Results from each audit were discussed by the Committee, together with the follow-up actions taken by management.

During the year, 12 internal audits were completed. Examples of these audits include:

- key commercial controls;
- anti-bribery and anti-corruption procedures;
- joint venture reporting;
- WIP and debt management; and
- treasury management.

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

Internal audits – 2019 financial year

At its June 2018 meeting, the Committee approved the 2019 internal audit plan. Audits planned for the 2019 financial year include:

- contract governance controls;
- miscellaneous procurement-related audits;
- information security;
- tax – a review of data flow from the business to Group Tax; and
- expenses system – a review of compliance with the Group's expenses policy.

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's and KPMG's performance. The feedback was then reviewed by the Committee at its meeting in December 2017.

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

Strengths

- The link between the business and the RMAC provided by management
- Clear audit reports assist the business in its management of risk
- Internal audit plan is well-structured

Future areas of focus

- Continue to develop Grant Thornton's understanding of the business
- Continue to focus on completing audits, and agreeing the recommendations, promptly
- Increased use of technology to drive efficiency

Risk Management and Audit Committee report continued

Engagement with the FRC

FRC Audit Quality Review

The FRC's Audit Quality Review team (AQRT) selected PwC's audit of the Company's 2017 financial statements for review, as part of its annual programme of promoting improvement in the overall quality of auditing in the UK.

The Committee discussed the AQRT's findings, some of which highlighted that significant improvements were required. As the Chair of the Committee, I discussed the FRC's report with both PwC and the FRC. The principal findings were the incorrect presentation of the gain on the disposals of Mouchel Consulting and Biogen, which is referred to in further detail below under 'FRC Corporate Reporting Review', and the AQRT identifying the need to apply appropriate challenge to judgements made in relation to long-term contracts. PwC confirmed that, in the 2018 audit, it had applied more challenge and obtained more independent evidence to support the judgements.

FRC Corporate Reporting Review

On 30 July 2018, the Company received a letter from the FRC raising a number of points on the Company's 2017 Annual Report. The Company provided responses to the FRC on 28 August and 14 September 2018 and, accordingly, the FRC's enquiries are considered to be at an early stage.

The Committee has overseen the engagement with the FRC, discussed the points raised in the FRC's letter with PwC and reviewed the responses provided by the Company to the FRC. The Committee noted that the Company has included a number of additional disclosures in this Annual Report. Examples of these are:

- page 129: note 1 – Significant accounting policies – Critical accounting estimates and judgements – (b) Construction contracts;
- page 129: note 1 – Significant accounting policies – Critical accounting estimates and judgements – (c) Valuation of land and work in progress; and
- pages 149 to 157 (inclusive): note 14 – Investments in and loans to joint ventures.

In addition, the Company has restated the 2017 income statement and cash flow statement as follows:

- the profit from the disposal of Mouchel Consulting has been presented in discontinued operations (and not in continuing operations); and
- the proceeds from the disposal of Mouchel Consulting and Biogen have been presented as cash flows from investing activities (and not operating activities).

Please see note 1 – Significant accounting policies – 2017 restatement on page 124.

At the date of this Annual Report, the Company continues to engage with the FRC.

External audit

2018 audit

The following table summarises the key steps taken by the Committee in overseeing the 2018 audit:

Meeting	Issue	Decisions and actions taken by the Committee
June 2018	PwC's audit plan	Challenged and agreed the plan
	PwC's audit risk assessment	Reviewed and challenged PwC's approach to the identified risks
	Materiality level for the audit	Agreed at substantially the same level as the 2017 audit
	PwC's resources	Reviewed and discussed with PwC, so as to ensure that the audit was adequately resourced
	Audit fee and terms of engagement	Reviewed, challenged and approved the fee and terms of engagement
September 2018	Review of PwC's audit plan	PwC confirmed that no material changes were made to the agreed plan
	Audit findings, significant issues and other accounting judgements	Discussed these with PwC and management
	Management representation letter	Reviewed and approved the letter, following a review by management
	PwC's independence, objectivity and quality control procedures	Independence and objectivity confirmed; quality control procedures reviewed; AQRT review discussed

During the audit, I met PwC's lead audit partner to discuss the process. The Committee met PwC without management being present at the March, June and September 2018 meetings.

2018 financial statements – 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 determined that the significant issues and other accounting judgements relating to the 2018 financial statements are as shown in the table below.

Significant issues and accounting judgements	Action undertaken by the RMAC/Board
Valuation of land and development properties	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 2018 and required 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, challenging management on its intention to develop the sites 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. In relation to each of Property and Residential, where management had relied on experts, PwC reviewed whether those experts were qualified, independent and objective. PwC's conclusion, following these steps, is set out in the independent auditor's report on page 112. The Committee discussed PwC's conclusion at its meeting in September 2018.
Accounting for long-term contracts – including profit recognition, work-in-progress and provisioning	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 UK Building and Infrastructure businesses – for example, the Group's Mersey Gateway and Broadmoor Hospital projects. The Committee identified accounting for long-term contracts as one of the principal matters for review by PwC in the 2018 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 sought evidence, including reviewing correspondence and contracts, to 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 2018, respectively. PwC's conclusion is set out in the independent auditor's report on page 113.
Accounting for McNicholas acquisition	Following the acquisition in July 2017, management carried out an exercise to account for the acquisition, including fair valuing assets and calculating goodwill. PwC assessed management's fair value calculation, reviewed the allocation of the purchase price, challenged the key assumptions and reviewed the other accounting judgements. PwC's conclusion is set out in the independent auditor's report on page 114. The Committee discussed PwC's conclusion at its meeting in September 2018.

Risk Management and Audit Committee report continued

External auditor effectiveness

During the year, the Committee conducted an evaluation of PwC's performance (with respect to the 2017 audit). A questionnaire was issued to key stakeholders, including members of the Committee and those involved in the 2017 audit. Feedback from the evaluation was discussed by the Committee at its meeting in December 2017 and was subsequently provided to PwC so that it could be taken into account when planning the 2018 audit.

A summary of the results of the evaluation is as follows:

Strengths

- Good experience of the industry within the audit team
- Good engagement between the audit team and the business
- Audit planning resulted in work being completed within agreed timelines

Future areas of focus

- Avoiding duplication of work and requests
- So far as possible, maintaining continuity of audit team members
- Continuing to improve the communication between the audit team and the business

The Committee will formally assess PwC's performance in relation to the 2018 audit following its completion. A resolution to re-appoint PwC as the external auditor will be proposed at the 2018 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. The limits of authority within the policy are:

Fees	Approval required
Up to £10,000	May be authorised by the Group Finance Director on individual assignments (not exceeding £50,000 in any financial year)
Above £10,000	Must be approved in advance by the Committee Where approval is urgently required, this may be provided by the Chair of the Committee (subject to the subsequent reporting of the approval to the Committee)

The Company has a non-audit fee policy which reflects the FRC's revised Ethical Standards for Auditors published in June 2016. The policy, which was last reviewed in June 2018, 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.

Non-audit fees incurred during the 2018 financial year were £95,000, which is approximately 7.5% of the 2017 audit fee of £1,266,000. The non-audit fees related to sustainability reporting assurance for the 2017 Annual Report (£60,000) and the 2018 interim financial statements review (£35,000). PwC was engaged in relation to the sustainability reporting because of its knowledge of the Group's reporting systems and, in relation to the interim financial statements, because the review would enable it to conduct preparatory work in advance of the year-end audit. The Committee concluded that PwC's independence and objectivity was not compromised by it providing these services.

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 2018 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.

The Company complied with the Statutory Audit Services Order for the 2018 financial year.

Conclusion

I will be available to answer any questions about the Committee, our work and how we operate at the AGM on 16 November 2018.

Adam Walker
Chair of the Risk Management and Audit Committee

19 September 2018

Safety, Health and Environment Committee report

"The safety of those on the Group's sites is of paramount importance to the Committee, as are the Group's obligations with respect to the health and wellbeing of its employees and the environment."

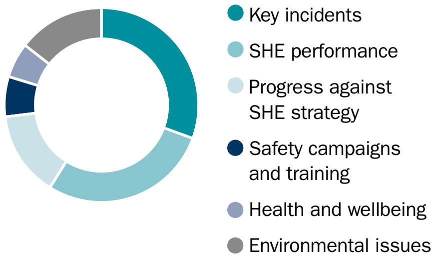
Chair

Nick Winser CBE

Other Committee members

Justin Atkinson
Constance Baroudel
Kirsty Bashforth

Allocation of time



Dear shareholder

I am pleased to present the Safety, Health and Environment Committee report for the 2018 financial year. This report summarises the activities of the Committee during the year.

Kier is committed to operating a safe and sustainable business, prioritising the health, safety and wellbeing of all those who work at and visit its offices and sites. The Group operates on several hundred sites at any one time, throughout the UK and internationally, and its projects are often complex, in challenging environments and are not without risk. As a Committee, we work towards reducing that risk for the benefit of all stakeholders, principally by overseeing and challenging management to continue to drive improvements in the management of safety, health and environment (SHE) risk throughout the business.

I am therefore pleased to be able to report a strong SHE performance in 2018. The Group achieved an accident incidence rate (AIR) of 96, a 26% reduction on the prior year, and made good progress with respect to reducing its energy use. Please see pages 28 and 29 for details of progress made against the Group's strategic priority to operate a safe and sustainable business.

Role

The role of the Committee includes:

- reviewing the Group's strategy with respect to SHE matters and challenging management to implement it;
- encouraging management's commitment and accountability with respect to managing the Group's SHE risks;
- reviewing and, as necessary, approving material Group-wide SHE initiatives, policies and procedures;
- receiving reports on any major SHE incidents and challenging management to communicate the lessons learned from those incidents across the Group; and
- monitoring and challenging management on the Group's performance against SHE targets.

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. The Chief Executive, the Executive Director – Construction and Infrastructure Services, the Executive Director – Developments, Property and Business Services and the Group SHE Director also attended the Committee's meetings during the year.

The secretary of the Committee is the Company Secretary, Hugh Raven.

The Committee met formally four times during the year; details of attendance at those meetings are set out on page 63.

Committee effectiveness review

2018 – progress against 2017 evaluation

The 2017 Board effectiveness review identified a need for the Committee to ensure that it set aside sufficient time to focus on health and wellbeing and environmental matters in the 2018 financial year. The 2018 Board effectiveness review confirmed that the Committee had increased its focus in these areas.

2019 – principal areas of focus

Following the 2018 Board evaluation, the Committee's principal areas of focus for the 2019 financial year include:

- continuing to oversee the development of the Group's safety culture, with a particular focus on developing its behavioural safety practices; and
- continuing its focus on the management of the health and wellbeing of the Group's employees and environmental issues relevant to the Group.

Safety, Health and Environment Committee report continued

Principal activities – 2018 financial year

At each meeting during the year, the following matters were 'standing' agenda items:

- **Key incidents** – the Committee reviewed reports about any material safety or environmental incidents that had occurred. These included reports relating to the incidents which took place at the BFK sites on the Crossrail project in 2014 and 2015 (which resulted in a fine of £355,000 for the Group), a fatality which occurred at Lidgate on the highways maintenance contract for Suffolk County Council in 2014 (which resulted in a fine of £1.8 million) and a heating oil discharge which occurred on the Christchurch hospital contract in 2014 (which resulted in a fine of £100,000). The Committee also oversaw management's response to the fire at the Glasgow School of Art site in June 2018.
- **SHE performance** – the Committee reviewed the Group's SHE performance against a number of KPIs. These KPIs related to the AIR and the all accident incidence rate (AAIR), visible leadership tours undertaken by management, construction waste, fleet compliance, carbon emissions, sickness absence and drugs and alcohol testing.
- **Visible leadership tours** – the Committee discussed feedback from Committee members' visible leadership tours undertaken since the previous meeting.

During the year, the Committee's other activities included:

Safety

Regulatory investigations

- Reviewing updates on regulatory investigations into SHE-related incidents within the Group.
- Assessing the level of provisioning in the Group's accounts for regulatory fines.

Campaigns

- Reviewing the safety-related campaigns overseen by management during the year, including campaigns relating to:
  - the basic components of a safe system of work (for example, inductions and risk assessments);
  - PPE selection and maintenance;
  - buried services; and
  - 'slips, trips and falls'.

Business unit presentations

- Inviting members of management to present at Committee meetings on a range of safety issues, including:
  - the Managing Director – Highways: the business' overall safety performance;
  - members of the Highways business' management team: the Lidgate incident; and
  - the Regional Director – Kier Services Housing Maintenance (North): the management of safety risks by the business.

Health and wellbeing

Strategy

- Approving the launch of the Group's new three-year health and wellbeing strategy in March 2018, which focuses on:
  - pre-employment fitness for work;
  - health surveillance and monitoring;
  - mental health issues; and
  - reduction in the cost of sickness absence.

Campaigns

- Continuing to monitor the Group's health and wellbeing programme, which includes a number of campaigns, including:
  - the appointment of 'health champions';
  - 'dry January';
  - 'heart health'; and
  - mental health and stress awareness.

Environmental matters

Strategy

- Reviewing progress against the '30 by 30' strategy.
- Reviewing progress against the Group's environmental performance KPIs, including those relating to carbon emissions, water usage, biodiversity and waste management.

Campaigns

- Overseeing management's implementation of a number of campaigns, including those relating to:
  - reducing the use of plastic by the business;
  - tree protection; and
  - disposal of gully waste.

Conclusion

Following the completion of nine years on the Board, I will not be standing for re-election at the AGM on 16 November 2018. I will, however, be available to answer any questions you may have about the Committee, our work and how we operate at the meeting. I would like to take the opportunity to wish my successor as Chair of the Committee, Kirsty Bashforth, every success in the role. I know that Kirsty agrees with me that the Committee plays an important role in Kier continuing to operate a safe and sustainable business.

Nick Winser CBE
Chair of the Safety, Health and Environment Committee

19 September 2018

Relations with shareholders and other stakeholders

Highlights

- An extensive and varied programme of engagement with shareholders and other stakeholders
- A review of the Board's engagement with key stakeholders
- UK and international investor roadshows held in the year

For further information on how we engage with shareholders and other stakeholders, please see pages 32 to 35 (inclusive).

Shareholder engagement

Introduction

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

2017

July
Trading update and subsequent discussions with analysts

September
2017 year-end results released
UK investor roadshows

October
US investor roadshow

November
Trading update
Annual General Meeting
Regional investor relations roadshows

2018

January
Trading update and subsequent discussions with analysts

March
2018 interim results released
UK investor roadshows
Meeting with the UK Shareholder Association

April
US and Canada roadshow

July
Trading update and subsequent discussions with analysts

September
2018 year-end results released
UK investor roadshow

Key shareholder engagement issues

The Board's engagement with shareholders was led by the Chief Executive, the Finance Director, the Chairman and the Senior Independent Director:

- **Chief Executive and Finance Director** – the Chief Executive and the Finance Director met shareholders following the announcements of the Group's 2017 results and its 2018 interim results. Following these announcements, analysts' notes were circulated to the Board; and
- **Chairman and Senior Independent Director** – the Chairman and the Senior Independent Director met a number of shareholders to discuss, amongst other matters, the Group's performance, governance and progress against the Group's strategy and, following these meetings, provided feedback to the Board.

The Board took into account feedback from these meetings in its decision-making. For example, shareholders identified the need to reduce the Group's net debt and to ensure that the Group's risk management systems remain effective; during the year, the Board introduced a number of measures designed to reduce net debt (including continuing to control closely the level of investment in the Property and Residential businesses) and has regularly reviewed the Group's principal risks, its risk appetite and the Group's systems of risk management and internal control.

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 2017 AGM were:

Resolution		For Percentage of votes cast[1,2]	Against Percentage of votes cast[2]
1	Approve Annual Report	99.21	0.79
2	Remuneration policy	90.28	9.72
3	Directors' Remuneration Report	63.03	36.97
4	Declare final dividend	99.97	0.03
5-15	Appointment of Directors	90.55 – 99.58	9.45 – 0.42
16	Appointment of auditor	99.94	0.06
17	Auditor's remuneration	99.95	0.05
18	Authority to allot shares	99.48	0.52
19	Disapply pre-emption rights (general)	99.37	0.63
20	Disapply pre-emption rights (acquisition)	95.27	4.73
21	Approve amendments to 2010 Long Term Incentive Plan	98.35	1.65
22	Meetings on 14 days' notice	94.96	5.04

1 Includes those votes for which discretion was given to the Chairman.
2 Does not include votes withheld.

The Board understands that the opposition to resolution 3 (the Directors' Remuneration Report) arose because a number of shareholders disagreed with the increase in base salary awarded to the Chief Executive with effect from 1 July 2017. The Remuneration Committee decided not to award the Chief Executive an increase in base salary for the 2019 financial year. Please see the Directors' Remuneration Report on pages 86 and 87.

Relations with shareholders and other stakeholders continued

Stakeholder engagement

At the March 2018 Board meeting, the Board formally reviewed how it engaged with its key stakeholders and reflected their interests in its decision-making. The following table provides examples of how the Board engages with certain of its key stakeholders and how it takes into account this engagement when making its decisions:

Key stakeholder	Examples of Board engagement	How does the Board take into account the engagement in its decision-making?
Employees	› The Board oversees the management of the Group's employee engagement surveys › The Board holds dinners with employees when visiting the Group's sites and offices › Members of the Board conduct visible leadership tours to the Group's sites	› The Board discuss the results of the surveys › Following the dinners, Board members report back on issues raised by employees › Observations from these visits are discussed by the SHE Committee
Supply-chain	› Certain Executive Directors engage with key suppliers at a strategic level › The Board is overseeing the Future Proofing Kier programme, which aims to increase the efficiency of supply-chain procurement › The Board oversees the Group's procurement function, which reports into the Chief Operating Officer	› Material issues are identified in monthly Board reports › Updates on the programme, and its efficiencies, are provided to the Board by management › The Chief Operating Officer reports to the Board on material procurement issues, as and when they arise
Clients	› Certain Executive Directors assist in the management of strategic client relationships › The Board has recently overseen the appointment of a Group Business Development Director › Certain client networking events are attended by members of the Board	› Information about key client relationships is provided via reports to the Board › The Group Business Development Director reports into the Chief Operating Officer › Feedback from these events is provided via reports to the Board
Communities	› Executive management oversees the Group's 'Social Value Impact' and 'Responsible Business, Positive Outcomes' strategies › Executive management reviews the results of 'Business in the Community' surveys › The Board oversees the management of the 'Shaping Your World' programme	› The Executive Directors report to the Board about local, business unit community engagement › The Board reviews the results of certain 'Business in the Community' surveys › The Chief Executive reports to the Board on the progress of the programme
Institutional investors and analysts	› The Chief Executive and Finance Director hold roadshows with investors following the release of results announcements › On behalf of the Board, the Head of Investor Relations engages with investors on a range of issues › The Chairman, the Senior Independent Director and the Chair of the Remuneration Committee each hold meetings with shareholders	› The Chief Executive and Finance Director report to the Board on investor feedback at the roadshows › The Head of Investor Relations attends Board meetings to provide feedback from institutional investors › Each reports back to the Board or the Remuneration Committee following the meetings

Key stakeholder	Examples of Board engagement	How does the Board reflect the engagement in its decision-making?
Retail shareholders	› The AGM provides retail shareholders with an opportunity to meet the Board and ask questions about the business › The Chief Executive and Finance Director meet retail shareholder investors at results roadshows › The Head of Investor Relations also engages with retail investors	› All Directors attend the AGM, enabling them to understand the views of shareholders and answer their questions › The Finance Director and the Chief Executive report back to the Board › The Head of Investor Relations provides feedback when attending Board meetings
Banks, lenders, sureties and insurers	› The Chief Executive and Finance Director engage with banks and lenders to discuss the Group's performance › The Chief Executive and the Finance Director conduct roadshows with prospective lenders › The Finance Director oversees the management of the Group's relationships with its sureties and insurers	› The Board takes into account feedback from lenders when considering the 'going concern' and 'viability' statements › Feedback from the roadshows is provided in their Board reports › The Head of Group Treasury attends Board meetings to discuss the status of these relationships
Government	› The Executive Directors participate in the Group's programme of engagement with MPs and ministers on a range of issues › Members of the Board participate in a number of industry trade bodies › Certain members of the Board have direct access to Government through the Cabinet Office Strategic Supplier Programme	› Feedback is provided to the Board via the Chief Executive and the other Executive Directors › Board members provide feedback following engagement with the relevant bodies › Following meetings with Government representatives, feedback is provided to the Board
Joint venture partners	› The Chief Executive engages with joint venture partners at a strategic level › Other Executive Directors engage with joint venture partners at an operational level › Members of the Board visit project sites which are operated by Kier in joint venture	› The Chief Executive reports to the Board on strategic joint venture relationships › Other Executive Directors report to the Board on operational issues › Feedback on critical relationship issues (for example, safety) is provided to the Board
Pension trustees	› The Finance Director regularly meets with the trustees of the Group's pension schemes › The Board delegates the day-to-day engagement with the trustees to the Group Reward and Pensions Director › The Finance Director meets the advisers to the trustees to discuss the schemes' funding	› The Finance Director provides feedback to the Board following the meetings › The Finance Director reflects feedback from this engagement in his decision-making and reports to the Board › The Board reviews and discusses the funding of the pension schemes

Annual statement of the Chair of the Remuneration Committee

"The Committee seeks to align remuneration at Kier with the business' performance and to incentivise management to deliver the Group's strategy for the long-term benefit of shareholders."

Chair
Constance Baroudel

Other Committee members
Justin Atkinson
Kirsty Bashforth
Philip Cox CBE
Adam Walker
Nick Winser CBE

Allocation of time

Dear shareholder

I am pleased to present the Directors' Remuneration Report for 2018. It is divided into three sections:

- the annual statement from the Committee Chair, which provides a review of the Committee's activities and decisions taken during the year;
- the annual report on remuneration, which provides details of the remuneration paid to the Board during the year; and
- a summary of the remuneration policy which was adopted at last year's Annual General Meeting ("AGM").

Role

The role of the Committee includes:

- setting the Executive Directors' remuneration policy;
- setting the Executive Directors' base salaries;
- reviewing base salary increases across the Group;
- approving the design of, and determining targets and performance measures for, any bonus schemes and long-term incentive awards for the Executive Directors and senior management;
- approving annual bonus payments made to the Executive Directors;
- approving the long-term incentive awards for Executive Directors and reviewing the vesting of those awards;
- overseeing the setting of senior management's remuneration;
- considering payments to former Directors to ensure that they are within the terms of the remuneration policy;
- engaging with institutional investors on remuneration matters; and
- appointing remuneration consultants and setting their terms of reference.

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

2018 – review of the year

The Group has delivered a solid performance during the year, despite a challenging market environment, with both revenue and profit having increased. The Group's revenue for the year increased by 5% to £4.5bn (2017: £4.3bn) and underlying operating profit increased by 10% to £160m (2017: £146m).

During the year, our Construction business secured £2.7bn of contract awards, our Services business won £1.9bn of contract awards or extensions and both our Property and Residential businesses increased their returns on capital employed whilst developing robust pipelines of future work. Following Carillion's insolvency, we acquired a greater share of the HS2 project and the Highways England Smart Motorways programme and, working closely and collaboratively with both clients, we transferred over 150 people into Kier to continue to deliver the projects. Please see the Chief Executive's strategic review on pages 14 to 19 (inclusive) for further information on the Group's performance during the year.

The Group's net debt at 30 June 2018 was £185.7m (2017: £110.1m). The year-end net debt to EBITDA ratio remains at less than 1x, which is in line with the Vision 2020 target. The Group's average month-end net debt position of £375m increased from £320m in 2017. However, it is expected to improve as a result of the Future Proofing Kier programme and continuing to control closely the Group's investment in the Property and Residential businesses, in particular. Please see 'Cash flow' on page 54 of the Financial review for further information on the Group's cash flows during the year.

We have made good progress with respect to the non-financial elements of Vision 2020. Please see page 31 for further details. In particular, we have achieved an accident incidence rate of 96, a 26% improvement on 2017, which positions the Group as one of the leaders in the industry with respect to the management of health and safety risks.

Engagement with shareholders

Following engagement with in excess of 50% of our shareholder base during Spring 2017, we were pleased that our remuneration policy received a 90% vote in favour at the 2017 AGM.

The Committee recognises that the annual report on remuneration received a 37% vote against at the 2017 AGM and that the Chief Executive's base salary increase in 2017 was the principal area of concern for shareholders.

In the post-AGM statement, the Board confirmed that it did not expect the Committee to approve significant increases in the base salary of the Chief Executive during the life of the remuneration policy but that, if circumstances arose in which the Committee considered such an increase to be appropriate, it would engage with shareholders before making its final decision.

During the year, we engaged with a number of shareholders to discuss the Committee's approach and to understand their views on remuneration at Kier. The Committee took into consideration shareholders' feedback when deciding that the Chief Executive would not receive a base salary increase for the 2019 financial year.

Remuneration across the Group

In determining the Executive Directors' remuneration, the Committee takes into account the Group's approach to remuneration across the Group as a whole. 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.

During the year, the Committee:

- reviewed salary increases across the Group. Overall, the average base salary increase across the Group, effective from 1 July 2018, was 3.8%;
- reviewed the outcome of the Group's gender pay gap reporting;
- reviewed bonus payments made to senior employees, whose bonus plan is based on similar principles to the Executive Directors' bonus; and
- oversaw the introduction of a conditional share award plan for senior employees below the Board to replace the annual LTIP award. Under the plan, awards are made following an assessment of prior year performance and without performance conditions and the shares vest after three years. Management believes that this plan will be an effective retention tool for senior employees.

2018 outcomes

Annual bonus

The annual bonus targets were profit before tax (50%), the Group's year-end net debt position (30%), health and safety targets (10%) and personal objectives (10%). A number of the personal objectives relate to the Vision 2020 strategic targets – for example, an increase in employee engagement and maintaining our high levels of customer satisfaction. The Committee has regularly reviewed performance against the targets during year.

When assessing performance against the profit before tax target, the Committee took into consideration a number of factors, including the quality of earnings, the extent of any non-underlying items and the extent of the increase on the previous year's profit. The Committee agreed that the Group's profit figure of £136.9m represented a good performance in light of challenging market conditions and noted that the 2018 financial statements did not include any non-underlying items. The Committee therefore agreed that it would be appropriate to award a payment of 79% of the maximum opportunity for this element of the bonus.

The Group's year-end net debt figure was £185.7m, which was ahead of the on-target figure for bonus purposes of £190m. 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 capital invested in the Property and Residential businesses. The Committee noted that, although the average capital invested in these businesses during the year was greater than the Group's average month-end net debt, the latter figure had increased in 2018. The Committee therefore decided to exercise its discretion to reduce the payment from 80% of the maximum opportunity for the net debt element of the bonus to 65% (the payment for on-target performance).

The reduction in the Group's all accident incidence rate (AAIR) resulted in the Committee awarding a payment of 100% of the maximum opportunity for the health and safety element of the bonus.

The Committee also reviewed the extent to which the Executive Directors had satisfied their personal objectives. The Executive Directors were awarded either 60% or 70% of the maximum opportunity of this element of the bonus.

The total bonus payment for the Chief Executive was 75% of his maximum opportunity. The total bonus payment for each of the Executive Directors was either 75% or 76% of their respective maximum opportunities. The Committee is satisfied that these payments reflect the performance of the Group and the Executive Directors during the year.

Further information about the annual bonus is set out on pages 93 and 94.

LTIPs

The performance period for the LTIP awards granted in October 2015 ended on 30 June 2018. The performance conditions were based on total shareholder return (TSR) and earnings per share (EPS). These awards will vest at 24% of the maximum opportunity, based upon the EPS performance. The element relating to TSR performance resulted in a nil payment. Please see page 94 for further information.

Payments to former Directors

On 1 August 2018, we announced that, following the appointment of Claudio Veritiero as Chief Operating Officer, Nigel Brook and Nigel Turner would be standing down from the Board and leaving the business with immediate effect. The Committee reviewed the terms on which both individuals did so, so as to ensure that such terms were permitted by the remuneration policy approved by shareholders at the 2017 AGM.

Both individuals have a 12-month notice period. The Committee decided to make a payment in lieu of notice (PILON) to both individuals on a phased basis over the 12-month period (the final instalment being due in July 2019). The Committee has obliged each individual to mitigate his loss and to offset any alternative remuneration received during the PILON period from any amounts owed by the Company.

The Committee exercised its discretion to pay both Directors a bonus in respect of the 2018 financial year (one-third of which will be satisfied by an allocation of shares, legal ownership of which will be deferred for three years), which will be subject to clawback, since they had been a member of the Board and employed by the Group for the whole of the year. Neither individual is entitled to a bonus in respect of the 2019 financial year.

The Committee exercised its discretion to permit the vesting of the LTIP awards granted in October 2015, on the basis that the individuals had been employed by the Group for the whole of the three-year performance period (which concluded on 30 June 2018).

Annual statement of the Chair of the Remuneration Committee continued

The Committee also decided to allow the individuals to retain their LTIP awards granted in October 2016 and October 2017, pro-rated for active service during the performance periods.

All payments to be made by the Company with respect to Nigel Brook and Nigel Turner in relation to the cessation of their employment are permitted under the policy on 'Payments for loss of office'. Please see pages 106 and 107 for further details of the policy.

Further details of the terms agreed with Nigel Brook and Nigel Turner are set out on pages 96 and 97 under 'Payments to past Directors'.

Looking forward – 2019 financial year

In the 2019 financial year, there will be no changes to the structure of the Executive Directors' remuneration. Please see 'Executive Directors' remuneration – 2019' on page 90 for further information.

Base salaries

The Committee reviewed the base salaries for the Executive Directors, taking into account the average base salary increases awarded across the Group and shareholder feedback at the 2017 AGM.

The Committee agreed that no increases would be awarded to the Chief Executive or the Finance Director from 1 July 2018 and that it would be appropriate to set the salary of Claudio Veritiero, in the new role of Chief Operating Officer, at the same level as that of the Finance Director with effect from his appointment on 1 August 2018. The Committee is satisfied that the Chief Operating Officer's salary is appropriate in light of the responsibilities of the role.

Annual bonus

The maximum bonus opportunity for the Chief Executive will be 125% of base salary, with 115% of base salary for the other Executive Directors (both opportunities remaining unchanged from 2018). The Committee considers these opportunities to be in line with those at peer group companies.

The on-target bonus opportunities (as a percentage of salary) for the Executive Directors will remain unchanged from those which applied in the 2018 financial year.

The bonus targets will be underlying earnings per share (EPS) (50%), the Group's average month-end cash/net debt position (30%), safety targets (10%) and personal objectives (10%).

The Group's Property and Residential businesses are increasingly using joint ventures (JVs), which management considers to be capital efficient structures. The performance of JVs is presented in the Group's financial statements after interest and taxation. The Committee therefore decided to replace the profit before tax target with an EPS target, since EPS is also presented after interest and tax and is considered by the Committee to be a more relevant measure of the Group's profitability for bonus purposes.

The Committee decided to change the net debt target to measure the Group's average month-end performance, rather than its year-end position (which was the target in 2018 and previous years). The change in the target reflects discussions between members of the Board and shareholders during the year.

The safety element of the bonus will require a reduction in both the Group's AIR and, so as to further incentivise a continued improvement in the Group's safety performance, the more challenging AAIR. The Committee will also continue to take into account any material incidents which may occur during the year, as well as requiring a specific number of visible leadership tours to be made.

The personal objectives will relate to an improvement in the Group's employee engagement survey scores, the realisation of benefits from the Future Proofing Kier programme and the continued development of the Group's contract governance framework.

Further details of performance against each of the bonus targets will be included in the 2019 Annual Report.

LTIP awards

The Executive Directors will continue to receive an award of 150% of their base salary in 2019 (the same level as in 2018). The performance conditions will again relate to EPS (50%), TSR (25%) and net debt: EBITDA (25%), over the three-year period ending 30 June 2021.

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' 2019 remuneration, the Committee took into account shareholders' feedback from the AGM vote in November 2017 and is satisfied that, overall, the link between pay and performance remains strong, the interests of the Executive Directors and shareholders are aligned and the Executive Directors' remuneration remains competitive.

The Committee will continue to monitor developments in executive remuneration and engage with shareholders and the proxy voting agencies 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 16 November 2018.

C. Baroudel.

Constance Baroudel
Chair of the Remuneration Committee

19 September 2018

Remuneration at a glance

Contents

In this section:

Background information

Approach to remuneration at Kier

Our remuneration policy aims to:

- align with strategy and incentivise and reward the delivery of performance: over two-thirds of the Executive Directors' maximum remuneration opportunity is variable and relates to the Group's performance against its strategic priorities (as set out on pages 28 and 29);
- 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; 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;
- 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 are 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 are subject to a two-year holding period.

Remuneration policy

The remuneration policy, a summary of which is set out on pages 102 to 107 (inclusive), was approved by shareholders at the Annual General Meeting on 17 November 2017. The policy is subject to shareholder approval every three years.

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).

Remuneration at a glance continued

Summary of the Executive Directors' remuneration in 2018 and 2019

The tables and charts below:

- summarise the principal elements of the Executive Directors' remuneration in 2018;
- summarise the key elements of the Executive Directors' remuneration in 2019; and
- provide an illustration of the remuneration that the Executive Directors may receive under different performance scenarios in 2019.

Executive Directors' remuneration – 2018

The following table summarises the key elements of the Executive Directors' remuneration in 2018:

Element[1]	Chief Executive	Finance Director	Other Executive Directors
Base salary	£620,000	£401,700	£375,000
2018 bonus			
› Total bonus	£580,320	£350,282	£323,250 – £327,000
› % of maximum opportunity	74.9%	75.8%	75.0% or 75.8%
› Cash amount	£386,880	£233,521	£215,500 – £218,000
› Amount satisfied in shares	£193,440	£116,761	£107,750 – £109,000
2016 LTIP award vesting			
› % of maximum opportunity	24%	24%	24%
› Number of shares vested	13,678	9,673	9,028
› Face value of vested shares[2]	£140,610	£99,438	£92,808

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 2018 of £10.28.

Executive Directors' remuneration – 2019

The following table summarises the key elements of the Executive Directors' remuneration in 2019:

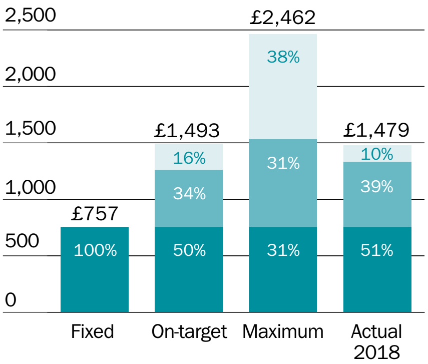
Element	Chief Executive	Finance Director	Chief Operating Officer
Base salary	£620,000	£401,700[1]	
Annual bonus	› Maximum: 125% of salary › On-target: 65% of opportunity	› Maximum: 115% of salary › On-target: 65% of opportunity	
Pension	20% of salary		
Annual bonus targets	› Financial (80%): EPS (50%) and average month-end cash/net debt (30%) › Non-financial (20%): health and safety (10%) and personal objectives (10%)		
Deferred shares	One-third of any net bonus payment to be satisfied by an allocation of shares (legal ownership deferred for three years)		
LTIP	150% of base salary		
LTIP performance conditions	Awards will be subject to the Group's performance over a three-year period ending 30 June 2021: › 50% EPS: cumulative earnings per share (EPS) growth over the performance period › 25% TSR: total shareholder return (TSR) when ranked relative to a bespoke list of comparator companies (see page 100) › 25% net debt: EBITDA: performance measured by taking the average (mean) of the position as at 30 June 2019, 2020 and 2021		
Holding period	Any vested LTIP shares must be held for two years after vesting (after payment of tax)		
Shareholding guidelines	200% of base salary		
Malus and clawback	› Malus will apply to the deferred shares (in the three-year deferral period) and LTIP awards (prior to vesting) › Clawback will apply to any cash bonuses paid and to the two-year post-vesting holding period for the LTIP		

1 Claudio Veritiero was appointed to the role on 1 August 2018. In his previous role as the Group Strategy and Corporate Development Director, his base salary was £375,000.

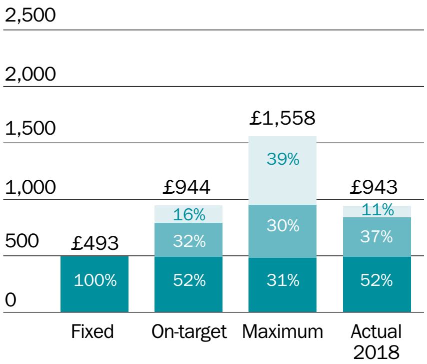
Executive Directors' remuneration – 2019 (performance scenarios)

The following charts illustrate the remuneration that the Executive Directors may receive under different performance scenarios for the year ending 30 June 2019, together with the actual amounts received in the year ended 30 June 2018:

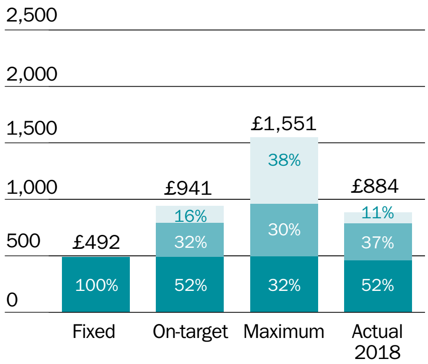
Chief Executive (£'000s)



Finance Director (£'000s)



Chief Operating Officer (£'000s)



● Fixed ● Annual bonus ● LTIP

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

- 'Fixed' remuneration comprises:
  - base salary;
  - the estimated value of taxable benefits to be provided in 2019 in line with the remuneration policy (based on the actual value of such benefits provided in 2018); 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 2018' refers to the figures set out in the table on page 92.

Annual report on remuneration

Introduction

This section of the report sets out the annual report on remuneration for the 2018 financial year.

The following information contained in this section of the report has been audited: the table containing the total single figure of remuneration for Directors and accompanying notes on this page, the pension entitlements set out on this page, the incentive awards made during the 2018 financial year set out on page 95, the payments for loss of office set out on page 96, the payments to past Directors set out on page 96 and the statement of Directors' shareholdings and share interests set out on page 97.

Directors' remuneration for the 2018 financial year

The following table provides details of the Directors' remuneration for the 2018 financial year, together with their remuneration for the 2017 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

	Salary/fee (£000)		Taxable benefits[1] (£000)		Bonus (£000)		LTIP vesting (£000)		All-employee schemes (£000)		Pension[6] (£000)		Total (£000)	
	2017/ 2018	2016/ 2017	2017/ 2018	2016/ 2017	2017/ 2018	2016/ 2017	2017/ 2018[2]	2016/ 2017[3]	2017/ 2018[4]	2016/ 2017[5]	2017/ 2018	2016/ 2017	2017/ 2018	2016/ 2017
Executive Directors														
Nigel Brook	375	364	13	16	323	175	93	38	1	1	75	73	880	667
Bev Dew	402	390	11	10	350	172	99	76	1	1	80	78	943	727
Haydn Mursell	620	590	13	13	580	283	141	194	1	1	124	118	1,479	1,199
Nigel Turner	375	364	13	13	323	175	93	48	1	1	74	73	879	674
Claudio Veritiero	375	364	13	13	327	175	93	54	1	1	75	73	884	680
Non-Executive Directors														
Justin Atkinson	62	60	–	–	–	–	–	–	–	–	–	–	62	60
Constance Baroudel	62	56	–	–	–	–	–	–	–	–	–	–	62	56
Kirsty Bashforth	52	50	–	–	–	–	–	–	–	–	–	–	52	50
Philip Cox[7]	204	–	–	–	–	–	–	–	–	–	–	–	204	–
Adam Walker	62	60	–	–	–	–	–	–	–	–	–	–	62	60
Phil White[8]	31	188	–	–	–	–	–	–	–	–	–	–	31	188
Nick Winser	62	60	–	–	–	–	–	–	–	–	–	–	62	60
Total	2,682	2,546	63	65	1,903	980	519	410	5	5	428	415	5,600	4,421

1 Comprises 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 2017 and 2018 was approximately 22% and 25%, respectively.

2 The award granted in October 2015 will vest as to 24%. The figures in this column are calculated using the Company's average share price for the three-month period ended 30 June 2018 of £10.28.

3 The figures in this column have been restated, as compared to those included in the 2017 Annual Report, to reflect the Company's share price on the vesting dates for the LTIP awards of £10.79 (all Executive Directors, other than Bev Dew) and £10.56 (Bev Dew). The figures in the column headed '2016/2017' under 'Total' also reflect this restatement.

4 The value of the matching shares purchased during the 2018 financial year under the Share Incentive Plan (the SIP), using an average share price for matching shares purchased during the 2018 financial year of £10.91.

5 The value of the matching shares purchased during the 2017 financial year under the SIP, using an average share price for matching share purchases during the 2017 financial year of £13.08.

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

7 Philip Cox was appointed to the Board with effect from 1 July 2017 and as Chairman of the Board with effect from 1 September 2017.

8 Phil White retired from the Board with effect from 31 August 2017.

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

Pension entitlements

The Executive Directors are eligible to participate in the Kier Retirement Savings Plan, a defined contribution plan. All receive a pension contribution from the Company 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 2018 financial year were:

Director	Pension contribution	Cash allowance	Total
Nigel Brook	–	£75,000	£75,000
Bev Dew	£10,000	£70,160	£80,160
Haydn Mursell	–	£124,000	£124,000
Nigel Turner	£5,000	£69,439	£74,439
Claudio Veritiero	£10,000	£65,000	£75,000

Annual bonus – 2018 financial year

The Executive Directors' 2018 bonus payments, in each case before deductions for income tax and national insurance contributions, were:

Financial performance (aggregate weighting: 80%)

Target	Opportunity	Threshold target	On target	Stretch target	Actual performance	Actual performance as a % of opportunity
Profit before tax	50%	£126.6m	£134m	£141.4m	£136.9m	79%
Year-end net debt	30%	£200m	£190m	£180m	£185.7m	65%[1]

Non-financial performance (aggregate weighting: 20%)

Health and safety

Target	Opportunity	Range	Actual performance	Actual performance as a % of opportunity
Reduction in the Group's average AAIR[2]	10%	0-20% reduction	22%	100%

Personal objectives

		Actual performance as a % of opportunity				
Target	**Opportunity**	**Nigel Brook**	**Bev Dew**	**Haydn Mursell**	**Nigel Turner**	**Claudio Veritiero**
Please see page 94	10%	60%	70%	60%	60%	70%

Total outcome

	Nigel Brook	Bev Dew	Haydn Mursell	Nigel Turner	Claudio Veritiero
Bonus payable as % of opportunity	75.0%	75.8%	74.9%	75.0%	75.8%
Opportunity as % of salary	115%	115%	125%	115%	115%
Bonus payable as % of salary	86.2%	87.2%	93.6%	86.2%	87.2%
Total bonus	£323,250	£350,282	£580,320	£323,250	£327,000

1 The Committee took into account the Group's average month-end net debt position relative to the average month-end capital investment in the Property and Residential businesses. Although the year-end net debt figure of £185.7m supported a payment of 80% of the net debt opportunity, the Committee exercised its discretion to reduce this to 65% (the payment for on-target performance). Please see '2018 outcomes – Annual bonus' on page 87 for further information.

2 The target related to a reduction in the Group's average AAIR over the 2018 financial year, as compared to the 2017 financial year. A bonus payment started to accrue upon a reduction in the 2017 figure, with the maximum opportunity requiring a 20% reduction. There was a 22% reduction, resulting in a maximum payout.

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

Annual report on remuneration continued

Performance against personal objectives

A maximum of 10% of the total bonus opportunity related to the satisfaction of personal objectives, of which 7% related to performance against a set of collective objectives and 3% related to specific individual targets. The Committee assessed performance against those objectives as follows:

Common objectives (opportunity: 7%)

The Committee awarded a 4% payment for performance against the common objectives. A summary of progress against those objectives is:

Objective	Key performance indicator	Progress
Customer satisfaction	Increase the Group's revenue from cross-selling	Target achieved. Objective satisfied
	Maintain customer satisfaction score above 90%	Customer satisfaction score was 90% (2017: 91%)
Operational efficiency	Reduce overheads as a percentage of revenue	Target achieved. Objective satisfied
	Complete Oracle ERP system implementation within agreed timescale and budget	Oracle ERP system implementation completed on time. Budget exceeded
Risk management	Implement 'projects in delivery' reporting	Reporting implemented. Objective satisfied
Innovation	Implement '#forwardthinking@kier' action plan	Action plan implemented. Objective satisfied
Talent	Increase employee engagement survey score, as compared to 2017	Employee engagement survey score increased to 60% (2017: 56%). Objective satisfied
	Improve September 2018 graduate intake gender diversity ratio to 70:30 (men:women)	Graduate intake gender diversity ratio was 77:23 (men:women)

Individual objectives (opportunity: 3%)

The Committee awarded the Executive Directors a payment of either 2% or 3% for performance against individual objectives. A summary of progress against those objectives is:

Executive Director	Objective(s)	Progress	% payment
Nigel Brook	Deliver Infrastructure strategic plan and integrate McNicholas	Infrastructure business restructured and McNicholas integrated	2%
Bev Dew	Consolidate pensions administration	Consolidation completed	3%
Haydn Mursell	Drive effective succession planning at senior management levels	Good progress made. See pages 69 and 70	2%
Nigel Turner	Deliver a number of strategic and cost saving targets in specific businesses	Certain targets achieved, others were not	2%
Claudio Veritiero	Drive compliance of use of customer relationship management (CRM) system	CRM system in place across the Group. Compliance target met	3%

LTIP awards – performance period ended 30 June 2018

The three-year performance period of the LTIP awards granted in the 2016 financial year ended on 30 June 2018. Performance against the performance conditions of those awards was as follows:

Performance condition	Weighting	Targets	Actual performance	Level of vesting[1]
Cumulative EPS growth	50%	0% vesting for below 5% p.a.	8.0 p.a.[2]	48%
		25% vesting for 5% p.a.		
		100% vesting for 15% p.a.		
		Straight-line vesting between these points		
TSR outperformance[3]	50%	0% vesting for below index	-12.5% p.a.	–
		25% vesting for performance in line with index		
		100% vesting for performance in line with index +12% p.a.		
		Straight-line vesting between these points		
Total				24%

1 Expressed as a percentage of the maximum opportunity.

2 The number of shares used for the purposes of calculating cumulative EPS growth was 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 those awards will result in the allocation of the following numbers of shares:

Director	Maximum number of shares	Number of shares vesting[1]	Value[2]
Nigel Brook	37,620	9,028	£92,808
Bev Dew	40,308	9,673	£99,438
Haydn Mursell	56,995	13,678	£140,610
Nigel Turner	37,620	9,028	£92,808
Claudio Veritiero	37,620	9,028	£92,808

[1] The vesting date for the awards is 22 October 2018.

[2] 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 2018 of £10.28. The values stated are before deductions for income tax and national insurance contributions.

Incentive awards made during the 2018 financial year

The following incentive awards were made to each of the Executive Directors during the 2018 financial year:

Award	Basis of award	Director	Face value[2]	Potential award for threshold performance	End of performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP	150% of base salary for the year ended 30 June 2018	Nigel Brook[1]	£203,122	25% of face value	30 June 2020	23 October 2020	n/a	Awards are based 50% on three-year cumulative EPS growth, 25% on TSR performance against a comparator group and 25% on net debt: EBITDA
		Bev Dew	£602,546					
		Haydn Mursell	£929,990					
		Nigel Turner[1]	£203,122					
		Claudio Veritiero	£562,493					
Deferred shares	1/3 of the net bonus for the year ended 30 June 2017	Nigel Brook	£30,862	n/a	n/a	29 September 2020	n/a	Continued service condition (subject to malus)
		Bev Dew	£30,311					
		Haydn Mursell	£50,027					
		Nigel Turner	£30,862					
		Claudio Veritiero	£30,862					
SIP	Matching shares purchased in accordance with the SIP rules	Nigel Brook	£906	n/a	n/a	n/a	n/a	Continued service condition
		Bev Dew	£906					
		Haydn Mursell	£753					
		Nigel Turner	£906					
		Claudio Veritiero	£895					

[1] Reflecting the pro rating of the awards granted to Nigel Brook and Nigel Turner following their cessation of employment. Please see 'Payments to past Directors' on pages 96 and 97 and 'LTIP awards' on page 98.

[2] For the LTIP awards, 'face value' is calculated using the market price of a share in the capital of the Company on 22 October 2017 of £10.79. 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 2017 of £11.49. For the SIP, 'face value' is calculated using the total number of shares bought on behalf of the relevant individuals during the 2018 financial year and an average share price for matching share purchases during the year of £10.91.

Annual report on remuneration continued

The performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2018 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 (23 October 2020).

Performance condition	Weighting	Targets
Cumulative EPS growth	50%	0% vesting for below 5% p.a.
		25% vesting for 5% p.a.
		100% vesting for 13% p.a.
		Straight-line vesting between all points
TSR outperformance[1]	25%	0% vesting for performance below median constituent of comparator group
		25% vesting for performance in line with median constituent of comparator group
		100% vesting for performance 10% above the median constituent of comparator group
		Straight-line vesting between all points
Net debt: EBITDA[2]	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 The peer group comprises a basket of 12 sector comparators: Balfour Beatty, Carillion, Costain, Galliford Try, Henry Boot, Interserve, Mears, Mitie, MJ Gleeson, Morgan Sindall, Renew Holdings and SEGRO. The Committee decided to retain Carillion in the peer group following its insolvency in January 2018, but also decided to review the level of vesting at the end of the performance period (30 June 2020) to ensure that it reflects the Group's relative underlying performance.

2 Net debt: EBITDA performance will be measured by taking the average (mean) of the position as at 30 June 2018, 2019 and 2020.

Payments for loss of office

No payments were made for loss of office during the 2018 financial year.

Payments to past Directors

On 1 August 2018, we announced that Nigel Brook and Nigel Turner would stand down from the Board and leave the business with immediate effect. In accordance with the terms of their service agreements and the Company's remuneration policy, it was agreed that each would receive a payment in lieu of notice, comprising base salary, pension allowance and car allowance for the 12-month notice period of £462,052.67 in aggregate. As contemplated by the remuneration policy, the Company elected to make the payment in lieu of notice on a phased basis as follows:

- a payment of £38,641.67 in August 2018 in respect of the first month of the notice period;
- a payment of £115,475 in September 2018 in respect of the next three (3) months of the notice period (September, October and November 2018); and
- eight payments of £38,492 (being £307,936 in aggregate), commencing in December 2018 and concluding in July 2019.

Each of these payments is subject to mitigation, as contemplated by the Company's remuneration policy.

The Company also agreed that it would continue the individuals' private medical insurance (on the same basis as applied prior to the termination of their employment) for 12 months from 1 August 2018 or, if earlier, until new employment is secured (which provides a similar benefit), rather than include compensation for this benefit in the payment in lieu of notice.

Each individual agreed to use reasonable endeavours to seek new employment and that any remuneration earned before 1 August 2019 from any new employment would be set off against the phased payments due to him.

For the financial year ended 30 June 2018, the Company awarded each of Nigel Brook and Nigel Turner a bonus of £323,250. Both bonus payments are subject to clawback. One-third of the net bonus payments will be satisfied in shares, legal ownership of which will be deferred for three years. The allocations of 'deferred shares' with respect to bonuses paid in 2015, 2016 and 2017 will be released at the expiry of their respective three-year holding periods in 2018, 2019 and 2020 (with malus continuing to apply in each case). Details of these bonus payments are set out on pages 93 and 94. Neither individual is entitled to a bonus in respect of the 2019 financial year.

The Company agreed to permit each Director to retain the awards granted under the LTIP in 2015, 2016 and 2017, in each case subject to pro rating for active service in the business during the performance periods for the awards. These awards will vest in October 2018, October 2019 and October 2020, respectively, subject to the satisfaction of their performance conditions. Details of the number of shares awarded to the Directors following the vesting of the award granted in 2015 are set out on page 94 under 'LTIP awards – performance period ended 30 June 2018'. The maximum number of shares to which the individuals are entitled, following the pro rating of the 2016 and 2017 awards, is set out on page 98 under 'LTIP awards'.

The Remuneration Committee exercised its discretion to treat each individual as a 'good leaver' with respect to the 2018 bonus and the LTIP awards. Please see the 'Annual statement of the Chair of the Remuneration Committee' on pages 86 to 88 (inclusive) for the reasons for the Committee's exercise of discretion.

Nigel Brook is entitled to a payment of £10,096 in respect of holiday accrued but untaken to 1 August 2018 and a statutory redundancy payment of £7,620. Nigel Turner is entitled to a statutory redundancy payment of £13,208. The Company has agreed to fund the cost of outplacement counselling for each Director, in each case up to a cap of £20,000 (excluding VAT), and their legal fees in connection with their departures, in each case up to a cap of £5,000 (excluding VAT).

All payments (excluding the statutory redundancy payments) are subject to deductions for tax and national insurance contributions.

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 2018, 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 2018 financial year, served as a Director:

	Shares held				Options held				
Director	**Owned outright[1] or vested**	**Vested but subject to a holding period[2]**	**Unvested and subject to performance conditions[3]**	**Unvested and subject to continued employment[4]**	**Vested but not exercised**	**Unvested and subject to continued employment[5]**	**Shareholding guideline (% of salary)**	**Current shareholding (% of salary)[6]**	**Guideline met?**
Justin Atkinson	2,964	–	–	–	–	–	n/a	n/a	n/a
Constance Baroudel	2,000	–	–	–	–	–	n/a	n/a	n/a
Kirsty Bashforth	2,019	–	–	–	–	–	n/a	n/a	n/a
Nigel Brook	20,231	9,130	84,161	215	–	1,699	200	75.2	No
Phil Cox	5,000	–	–	–	–	–	–	–	n/a
Bev Dew	8,018	9,269	138,914	216	–	1,569	200	41.3	No
Haydn Mursell	70,593	16,587	207,877	179	–	–	200	135.0	No
Nigel Turner	32,077	9,934	84,161	215	–	915	200	107.6	No
Claudio Veritiero	19,596	9,583	129,663	215	–	1,831	200	74.7	No
Adam Walker	4,559	–	–	–	–	–	n/a	n/a	n/a
Phil White[7]	4,354	–	–	–	–	–	n/a	n/a	n/a
Nick Winser	5,999	–	–	–	–	–	n/a	n/a	n/a

1 Comprising shares held legally or beneficially by the relevant Director or their connected persons (including partnership shares, dividend shares and matching shares purchased before 30 June 2015 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. The LTIP awards granted to Nigel Brook and Nigel Turner in October 2016 and October 2017 were pro rated to reflect their active service with the Group during the performance periods for the awards.

4 Comprising matching shares purchased after 30 June 2015 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 2018 of £9.60 and gross base salaries for the year ended 30 June 2018.

7 The table refers to the number of shares owned by Phil White at the date of his retirement from the Board (31 August 2017).

Since 30 June 2018, 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.

Annual report on remuneration continued

Deferred shares

Those persons who, during the 2018 financial year, served as a Director beneficially owned, at 30 June 2018, 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:

Director	2016 award	2017 award	2018 award	Cumulative total 30 June 2018
Nigel Brook	2,337	4,107	2,686	9,130
Bev Dew	2,231	4,400	2,638	9,269
Haydn Mursell	6,011	6,222	4,354	16,587
Nigel Turner	3,141	4,107	2,686	9,934
Claudio Veritiero	2,790	4,107	2,686	9,583
Date of award	29 September 2015	29 September 2016	29 September 2017	–
Share price used for award[1]	1,364 pence	1,355 pence	1,149 pence	–
End of holding period	29 September 2018	29 September 2019	29 September 2020	–

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 28 September 2015, 28 September 2016 and 28 September 2017, respectively.

LTIP awards

Those persons who, during the year ended 30 June 2018, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2018:

Director	2016 award	2017 award	2018 award	Cumulative total 30 June 2017	Cumulative total 30 June 2018
Nigel Brook	37,620	27,716[2]	18,825[2]	89,816	84,161[2]
Bev Dew	40,308	42,763	55,843	107,745	138,914
Haydn Mursell	56,995	64,692	86,190	183,729	207,877
Nigel Turner	37,620	27,716[2]	18,825[2]	93,011	84,161[2]
Claudio Veritiero	37,620	39,912	52,131	94,731	129,663
Date of award	22 October 2015	21 October 2016	23 October 2017	–	–
Share price used for award[1]	1,396 pence	1,368 pence	1,079 pence	–	–
End of performance period	30 June 2018	30 June 2019	30 June 2020	–	–

1 The market price of a share from the business day immediately prior to the date of the award.

2 Pro rated to reflect Nigel Brook's and Nigel Turner's active service in the Group during the performance periods of the 2017 and 2018 awards.

The performance conditions for the 2016 and 2017 awards are set out in the Annual Reports in respect of the years in which the awards were made. The performance conditions for the 2018 award are set out on page 96.

Share Incentive Plan

Those persons who, during the year ended 30 June 2018, served as a Director beneficially owned the following numbers of shares as a result of purchases under the SIP at 30 June 2018:

Director	Unrestricted shares	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Cumulative total 30 June 2018
Nigel Brook	845	677	256	215	123	2,116
Bev Dew	–	462	58	216	15	751
Haydn Mursell	641	581	207	179	111	1,719
Nigel Turner	2,569	632	534	215	101	4,051
Claudio Veritiero	465	677	191	215	124	1,672

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 2018 financial year' on page 95.

At 19 September 2018, 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 2018: Nigel Brook – 24 shares, Bev Dew – 48 shares, Haydn Mursell – 41 shares, Nigel Turner – 24 shares and Claudio Veritiero – 48 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 2018.

Save As You Earn schemes

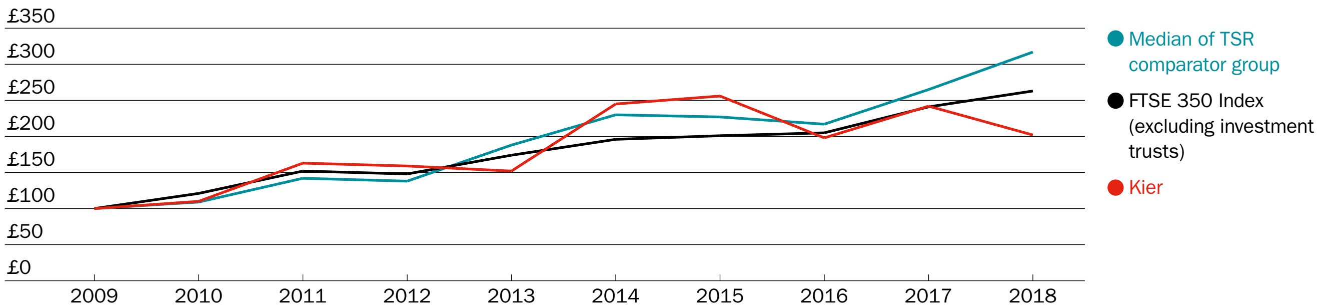
Those persons who, during the 2018 financial year, served as a Director had the following options under the Kier Group plc 2006 Sharesave Scheme and/or the Kier Group plc Sharesave Scheme 2016 at 30 June 2018:

Director	Date granted	Maximum number of shares receivable at 1 July 2017	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2018[1]	Exercise price	Exercise period
Nigel Brook	31 October 2014	775	–	–	775	–	1,159 pence	1 December 2017 – 31 May 2018
	30 October 2015	784	–	–	–	784	1,147 pence	1 December 2018 – 31 May 2019
	1 November 2017	–	915	–	–	915	983 pence	1 December 2020 – 31 May 2021
Bev Dew	30 October 2015	1,569	–	–	–	1,569	1,147 pence	1 December 2018 – 31 May 2019
Nigel Turner	30 October 2015	784	–	–	784	–	1,147 pence	1 December 2018 – 31 May 2019
	1 November 2017	–	915	–	–	915	983 pence	1 December 2020 – 31 May 2021
Claudio Veritiero	31 October 2014	775	–	–	775	–	1,159 pence	1 December 2017 – 31 May 2018
	8 November 2016	779	–	–	779	–	1,155 pence	1 December 2019 – 31 May 2020
	1 November 2017	–	1,831	–	–	1,831	983 pence	1 December 2020 – 31 May 2021

[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 2018, 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 2018 LTIP award (see page 96) 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 nine-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:

Chief Executive	Year	Chief Executive single figure of remuneration (£000)[1]	Annual bonus payout against maximum opportunity (%)	LTIP vesting against maximum opportunity (%)
John Dodds/Paul Sheffield	2010	£938[2]	51%	0%
Paul Sheffield	2011	£753	69%	0%
	2012	£1,273	75%	100%
	2013	£987	49%	31%
	2014	£1,099	68%	33%
Haydn Mursell	2015	£1,079	92%	0%
	2016	£1,311	90%	34%
	2017	£1,199	48%	29%
	2018	£1,479	75%	24%

[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.

Annual report on remuneration continued

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 2018 financial year, as compared to the 2017 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 8,000 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 that relate to the Chief Executive's remuneration. Approximately 900 employees are eligible to receive a bonus.

Element of remuneration	Chief Executive change	Other employees change
Base salary	0%	3.8%
Taxable benefits	0%	2.8%
Annual bonus	104.9%	3.5%

Relative importance of spend on pay

The graph below shows the percentage changes in the total employee remuneration and dividends paid between the 2017 and 2018 financial years:

Total employee remuneration (£m)

Dividend (£m)

Employee remuneration is remuneration paid to or receivable by all employees of the Group and is explained in note 6 to the 2018 consolidated financial statements on page 135.

The dividend figures in the chart comprise the dividends paid in the 2017 and 2018 financial years (as stated in note 10 to the 2018 consolidated financial statements on pages 143 and 144), being, respectively, (i) the final dividend for the 2016 financial year and the interim dividend for the 2017 financial year; and (ii) the final dividend for the 2017 financial year and the interim dividend for the 2018 financial year.

Implementation of the remuneration policy in 2019

Executive Directors' base salary

The base salaries of the Executive Directors are, with effect from 1 July 2018, as follows:

Director	From 1 July 2017	From 1 July 2018	Percentage increase
Bev Dew	£401,700	£401,700	0%
Haydn Mursell	£620,000	£620,000	0%
Claudio Veritiero	£375,000	£401,700[1]	7.1%

[1] Payable to Claudio Veritiero with effect from his appointment to the role of Chief Operating Officer on 1 August 2018. Mr. Veritiero's remuneration for July 2018 was calculated by reference to his previous base salary of £375,000.

Nigel Brook and Nigel Turner were not awarded increases in their base salaries from 1 July 2018.

Annual bonus

In the 2019 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 underlying earnings per share performance, a maximum of 30% to average month-end debt performance, 10% to health and safety targets and 10% to personal objectives. These objectives will relate to an improvement in the Group's employee engagement survey scores, the realisation of benefits from the Future Proofing Kier programme and the continued development of the Group's contract governance framework. 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 2019 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 2018 financial year, except for the removal of Carillion, following its liquidation, from the comparator group for TSR purposes. The comparator group will be:

Balfour Beatty	Galliford Try	Mears	Morgan Sindall
Henry Boot	Mitie	Renew Holdings	Costain
Interserve	MJ Gleeson	SEGRO	

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 continue to 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 continue to receive private health insurance and either a company car or a car allowance of £11,900 per annum. Both amounts remain unchanged from the 2018 financial year.

Non-Executive Directors' fees

There will be no increase in the Non-Executive Director base fee or the fees for Chair of a Board committee, the Senior Independent Director or the Chairman for the 2019 financial year. The total fees payable to the Non-Executive Directors with effect from 1 July 2018 are as follows:

Director	Base fee from 1 July 2018	Chair of Board committee fee from 1 July 2018	Senior Independent Director fee from 1 July 2018	Total from 1 July 2018
Justin Atkinson	£51,500	–	£10,000	£61,500
Constance Baroudel	£51,500	£10,000	–	£61,500
Kirsty Bashforth	£51,500	–	–	£51,500
Philip Cox[1]	£235,000[2]	–	–	£235,000
Adam Walker	£51,500	£10,000	–	£61,500
Nick Winser	£51,500	£10,000	–	£61,500

1 Philip Cox does not receive a fee for his work as the Chair of the Nomination Committee.

2 The fee payable to Philip Cox upon his appointment as Chairman with effect from 1 August 2017.

The Remuneration Committee

Membership and meeting attendance

The names of the members of the Committee are set out on page 86, together with an indication of the Committee's principal activities during the 2018 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 four 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 – 2018 financial year

The annual statement of the Chair of the Remuneration Committee on pages 86 to 88 (inclusive) provides a summary of the Committee's principal activities during the year.

Committee performance evaluation

2018 – progress against 2017 evaluation

The 2017 Board evaluation identified that engaging with all stakeholders, principally shareholders and the Executive Directors, on remuneration matters was a key area of focus for the Committee in the 2018 financial year. The 2018 Board evaluation process confirmed that good progress had been made in this respect.

2019 – principal areas of focus

The 2018 Board evaluation confirmed that continued engagement with shareholders in respect to the implementation of the remuneration policy would be the Committee's principal area of focus in the 2019 financial year.

Advisers

During the 2018 financial year, the Committee received advice from Mercer (Jenny Martin and Stuart Harrison). Total fees of £30,535 (excluding VAT) were payable in respect of Mercer's services as remuneration advisers during the 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, the Group HR Director and the Group Reward and Pensions Director (Mark Bradshaw). Mercer provided actuarial advice to the Mouchel pension schemes until 31 December 2017. The Committee is satisfied that the advice it receives from Mercer is objective and independent.

Shareholder voting

Both the Directors' remuneration policy and the annual report on remuneration were subject to a shareholder vote at the 2017 AGM.

The results of the vote on the resolution approving the remuneration policy were:

Votes for[1]	Percentage votes for	Votes against[2]	Percentage votes against	Votes withheld
45,132,928	90.28	4,860,934	9.72	7,311,115

The results of the vote on the resolution approving the remuneration report were:

Votes for[1]	Percentage votes for	Votes against[2]	Percentage votes against	Votes withheld
32,021,380	63.03	18,784,004	36.97	6,534,417

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

2 Does not include votes withheld.

Please see 'Relations with shareholders and other stakeholders' on pages 83 to 85 (inclusive) and the Annual statement of the Chair of the Remuneration Committee on pages 86 and 87 for further information on the vote in relation to the remuneration report.

Directors' remuneration policy – summary

Introduction

The Company's remuneration policy, which was approved at the AGM on 17 November 2017, will continue to apply in the 2019 financial year. The Committee has included the policy table and certain other extracts from the policy in this year's report for ease of reference and so as to provide context for the decisions taken by the Committee during the year. Where relevant, references to targets in the policy have been updated to refer to 2018 targets, together with certain other non-material changes. The full policy is set out on pages 86 to 93 (inclusive) of the 2017 Annual Report, which can be found on Kier's website at www.kier.co.uk/investor-relations/2017-annual-report.

Future policy table

The Group's policy for each element of an Executive Director's remuneration is set out in the table below:

Element and link to strategy	Operation
Base salary To attract and retain Executive Directors of the calibre required to deliver the Group's strategy	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.
Benefits To provide benefits which are competitive with the market	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.
SAYE scheme To encourage ownership of the Company's shares	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.
Share Incentive Plan To encourage ownership of the Company's shares	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.
Pension To provide a retirement benefit which is competitive with the market	Executive Directors participate in a defined contribution scheme.
Annual bonus To reward the delivery of near-term performance targets and business strategy	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 104.
LTIP To reward the sustained strong performance by the Group over three years	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 104. 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.

Opportunity	Performance measures
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.	Continued strong performance.
Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.
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.	None.
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.	None.
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.	None.
The maximum potential bonus for the financial year ended 30 June 2018 was 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.
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 ended 30 June 2018 are listed on page 96. 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.

Directors' remuneration policy – summary continued

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 this policy or preceded it, 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 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's action/omission resulting in material reputational damage to the Group;
- a participant deliberately misleading the Company, the market and/or shareholders in relation to the financial performance of the Group;
- a participant's employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal; and
- other circumstances similar in nature to those listed above which the Committee considers justifies the application of malus.

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

Clawback applies to (i) the cash element of the annual bonus from the 2018 financial year (and may be applied up to three years following payment of the bonus) and (ii) the two-year post-vesting holding period which applies to LTIP awards granted from the 2018 financial year 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.

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.

Directors' remuneration policy – summary continued

Service contracts

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

Term of contract	Summary of provisions
Notice period	12 months' notice (both to and from the Executive Director).
Payment in lieu of notice (PILON)	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.
Change of control	There are no payments due upon a change of control, although deferred bonus shares would be released.
Other entitlements on termination	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).

Payments for loss of office

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

Component	Approach
Annual bonus	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).
LTIP	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 are 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).
SIP and SAYE schemes	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.
Other	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.
Change of control	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.

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:

Element and link to strategy	Operation	Opportunity	Performance measures
Fees To attract and retain Non-Executive Directors of the calibre required and with appropriate skills and experience	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.	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.	Continued strong performance.
Benefits To reimburse Non-Executive Directors for expenses	Reasonable and necessary expenses are reimbursed, together with any tax due on them.	Expenses (including, without limitation, travel and subsistence) incurred in connection with Kier business.	Not applicable.

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' Report

Introduction

This Directors' Report and the Strategic Report on pages 1 to 56 (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:

Information	Reported in	Page(s)
Corporate governance	Corporate Governance Statement Statements of Directors' Responsibilities	57 to 85 (inclusive) 110
Directors	Board of Directors Directors' Remuneration Report – Directors' shareholdings and share interests	64 and 65 97
Employees	Corporate responsibility	34
Financial instruments	Financial statements – note 27	166 to 170 (inclusive)
Going concern	Board statements	60
Greenhouse gas emissions	Corporate responsibility	35
Important events since the end of the financial year	Not applicable	–
Likely future developments	Chief Executive's strategic review	19
Results and dividends	Chairman's statement	12

Disclosures required under Listing Rule 9.8.4R

The table below sets out where information required to be disclosed under Listing Rule 9.8.4R can be found in this Annual Report (to the extent applicable to the Company).

Information	Reported in	Page(s)
(1) Amount of interest capitalised	Financial statements – note 12 (Computer software, footnote 2)	146
(2) Unaudited financial information	Not applicable	–
(4) Long-term incentive schemes	Directors' Remuneration Report	86 to 107 (inclusive)
(5) – (11)	Not applicable	–
(12) – (13)	Rights under employee share schemes	108 and 109
(14)	Not applicable	–

Political donations

The Company made no political donations during the year (2017: nil).

Research and development

The Group undertakes research and development activities when providing services to its clients – for example, in relation to design development, construction techniques and project management process and efficiencies. The direct expenditure incurred is not readily identifiable, as the investment is typically included in the relevant project.

Share capital

As at 30 June 2018, the issued share capital of the Company consisted of 97,460,163 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 notes 24 and 25 to the consolidated financial statements on pages 163 to 165 (inclusive).

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 19 September 2018, 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:

Shareholder	Interest[1]
Standard Life Aberdeen plc	14.0%
Woodford Investment Management Ltd	10.0%
BlackRock Inc	5.9%
Brewin Dolphin Limited	5.0%
Rathbone Investment Management Ltd	4.9%
Schroders plc	4.8%
Norges Bank	3.0%

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 2018, RBC Trustees (Guernsey) Limited (RBC), as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 12,897 shares (approximately 0.01% of the Company's issued share capital) at that date. 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 2018, Yorkshire Building Society (YBS) held 1,385,686 shares (approximately 1.42% of the Company's issued share capital) at that date on trust for the benefit of members of the SIP. At the same date, YBS also held 8,919 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 (although beneficiaries may authorise YBS to vote in accordance with their instructions). YBS distributes dividends received to beneficiaries under the trust.

As at 30 June 2018, 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) at that date.

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/ qualifying indemnities

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 in office at the date of this Annual Report, other than Nick Winser, will be standing for re-election by members at the 2018 AGM. Further information about the Directors' skills and experience can be found on pages 64 and 65.

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.

The Company is not aware of any of the Directors being the beneficiary of a qualifying indemnity provision.

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 17 November 2017 to allot shares in the Company (i) up to an aggregate nominal amount of £324,866 and (ii) up to an aggregate nominal amount of £649,733 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 £48,729 and (ii) for the purposes of financing an acquisition or other capital investment up to a further nominal amount of £48,729.

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 principal 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 by any of the Directors 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.

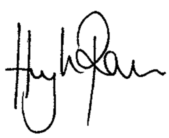
Auditor

The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditor for the financial year ending 30 June 2019 and a resolution relating to this re-appointment will be tabled at the forthcoming AGM.

AGM

The Company's 2018 AGM will be held at 12 noon on 16 November 2018 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

19 September 2018

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Statements of Directors' responsibilities

Compliance with applicable law and regulations

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' 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.

This Annual Report

Each of the Directors, whose names and functions are set out on pages 64 and 65, 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

Bev Dew
Finance Director

19 September 2018