Kier Group

Results for the year ended 30 June 2018

20 September 2018
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Haydn Mursell
Chief Executive
Agenda

- Highlights of the year
- Financial and operational update
- Market positions
- Future Proofing Kier programme
- Summary and outlook
### Good performance in line with expectations

#### Financial highlights
- Revenue up 5%
- Profit up 10%
- Record Construction and Services order books of £10.2bn
- Full-year dividend up 2%

#### All divisions performing well
- Property 27% ROCE
- Residential 15% ROCE
- Construction 2% margin
- Services 5% margin

#### Non-financial highlights
- Safety AIR 96 (2017: 130)
- BiTC score 93%
- Customer satisfaction 90%
- Only UK sector player in FTSE4Good Index

#### Vision 2020 on track
- Annual profit growth of 10% achieved
- Dividend cover moving to 2x
- Debt improvement plan underway
Future Proofing Kier (FPK)
More efficient service provision to clients

Future Proofing Kier programme launched

- Streamlining and efficiency programme
  - Improve client service
- Areas of focus
  - Operational efficiency
  - Profitability and cash generation
  - Disposal of non-core businesses
- 12-18 month duration with good progress to date
- Anticipated additional annual profit and cash flow improvements of at least £20m in FY20
  - 10% of profit from operations
- Targeted proceeds of £30m-£50m from disposal of non-core businesses

- Cash flow improvement of £20m p.a.
- Targeted disposal proceeds of £30-£50m
Future Proofing Kier

Accelerated net debt reduction

Debt improvement plan underway

- Annual free cash flow of £20m-£40m to service debt reduction in FY19 and thereafter
- Investment in Property and Residential divisions stabilised
- Supplemented by FPK benefits
  - Annual £20m free cash flow in FY20 and thereafter
  - Targeted £30m-£50m from disposal of non-core businesses
- Targeting accelerated net debt reduction
  - Year end net cash position by June FY21
  - Average net debt of c.£250m in FY21

One turn of EBITDA improvement in cash by FY21

Net cash by June 2021
Financial update

Bev Dew, Finance Director
Financial highlights

- Good performance
- Operating profit\(^1\) of £160m up 10%
- Earnings per share\(^1\) of 116.7p up 9%
- Net debt of £186m, < 1x EBITDA
- Average net debt of £375m
- Record order book of £10.2bn
- Full year dividend of 69.0p up 2%

\(^1\) Arising on continuing operations, stated before non-underlying items.
## Income statement

### EPS and dividend growth

<table>
<thead>
<tr>
<th></th>
<th>Year ending 30 June 2018 £m</th>
<th>Year ending 30 June 2017 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong>¹</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>4,493.3</td>
<td>4,265.2</td>
<td>+5</td>
</tr>
<tr>
<td><strong>Operating profit</strong>²</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>34.0</td>
<td>25.8</td>
<td>+32</td>
</tr>
<tr>
<td>Residential</td>
<td>25.9</td>
<td>22.8</td>
<td>+14</td>
</tr>
<tr>
<td>Construction</td>
<td>41.9</td>
<td>39.8</td>
<td>+5</td>
</tr>
<tr>
<td>Services</td>
<td>93.0</td>
<td>87.0</td>
<td>+7</td>
</tr>
<tr>
<td>Corporate</td>
<td>(34.8)</td>
<td>(29.8)</td>
<td>+17</td>
</tr>
<tr>
<td><strong>Underlying operating profit</strong></td>
<td>160.0</td>
<td>145.6</td>
<td>+10</td>
</tr>
<tr>
<td><strong>Underlying operating profit margin</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>3.6%</td>
<td>3.4%</td>
<td></td>
</tr>
<tr>
<td><strong>Net finance cost</strong>²</td>
<td>(23.1)</td>
<td>(19.5)</td>
<td>+18</td>
</tr>
<tr>
<td><strong>Profit before tax</strong>²</td>
<td>136.9</td>
<td>126.1</td>
<td>+9</td>
</tr>
<tr>
<td><strong>EPS</strong>²</td>
<td>116.7</td>
<td>106.8</td>
<td>+9</td>
</tr>
<tr>
<td><strong>DPS</strong></td>
<td>69.0</td>
<td>67.5</td>
<td>+2</td>
</tr>
<tr>
<td><strong>Dividend cover</strong></td>
<td>1.7x</td>
<td>1.6x</td>
<td></td>
</tr>
</tbody>
</table>

¹ Group and share of joint ventures for continuing operations.
² Arising on continuing operations stated before non-underlying items.
Operating profit

Well diversified portfolio

1 Arising on continuing operations, stated before non-underlying items, excluding corporate costs.
Property performance
Growing ROCE driven by joint venture strategy

Financials

Revenue\(^1\) Operating profit\(^1\)

\[\text{£218m} +20\% \quad \text{£34.0m} +32\%\]

Average capital employed & ROCE

![Chart showing revenue and operating profit with percentages and amounts.]

Operational highlights

- Visible eight year pipeline of £1.5bn GDV
- ROCE increased 400bps to 27%
  - Average asset base of £200m at cost
- Well-diversified end-market exposure
  - Regional bias outside London
- Predominantly non-speculative delivery
  - 32 transactions completed

Asset base c.£200m at cost

![Chart showing asset base distribution with percentages.]

1 Group and share of joint ventures from continuing operations.
Residential performance
Joint ventures driving ROCE to achieve Vision 2020 target two years early

Financials

- Revenue: £374m (8% increase)
- Operating profit: £25.9m (13% increase)

Average capital employed

- Total: £176m, reduced by £23m
- Private: £50m
- Mixed tenure: £100m

Operational highlights

- Three year land bank, asset base c.£300m:
  - Private led units: c.2,400
  - Mixed tenure led units: c.1,500
  - Growing mixed tenure land led strategy
- 2,042 units completed:
  - Private: 749
  - Mixed tenure: 1,293
- Vision 2020 ROCE of 15% achieved two years early
- Average capital employed of £176m, reduced by £23m

ROCE

- Total: 8%
- Private: 5%
- Mixed tenure: 13%

1 Group and share of joint ventures.
Construction performance
Record order book and stable margins

Financials
- Revenue £2,053m, up 19%
  - 46%
- Operating profit £41.9m, up 5%
  - 22%

Operational highlights
- Record order book £5.0bn, up 19%
  - Revenue 90% secured for FY19
- Revenue second half weighted
  - Good momentum in Q4 2018
- Margin stable
  - Caribbean and Hong Kong settlement concluded;
    £7m final cost charged to underlying operating profit
- Average project size c.£7-8m
  - > 70% delivered through frameworks

Underlying operating profit and margins

Contract size distribution
- Average £7-8m

1 Stated before non-underlying items.
Services performance
Increasing revenue with robust margins

Financials

- Revenue £1,849m, up 10%
- Operating profit £93.0m, up 7%

Underlying operating profit and margins

- Order book £5.2bn, up 11%
  - Revenue 90% secured for FY19
- Strong Highways performance
  - Areas 3 & 9 three-year extensions awarded
- Robust operating margin
- McNicholas integration successfully completed

Operational highlights

- Highways 44%
- Utilities 25%
- Housing Maintenance - public 7%
- Housing Maintenance - private 6%
- FM 13%
- Other 5%

Sector revenue mix FY18

1 Group and share of joint ventures.
2 Stated before non-underlying items.
Disciplined risk management
Well established processes

- Disciplined selection on ‘where to’ operate
  - Sectors
  - Geographies
  - Contract types / procurement routes
- Pre-contract / pre-investment review
- Group commercial standards
  - Risk and value based

- Fortnightly committee for all capital investment appraisals
- Post contract and reporting processes
  - Monthly reviews
  - Exco quarterly business and contract reviews
  - Working capital calls weekly

£7-8m
Average buildings project size

>70%
Frameworks

Lower risk contract models
Construction and Services order book

Strong visibility of workload with 90% of FY19 revenue secured

- Order book includes increased Kier share of HS2 (c.£250m) and Smart Motorways (c.£200m)

<table>
<thead>
<tr>
<th></th>
<th>At 30 June 2018 £bn</th>
<th>At 30 June 2017 £bn</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>5.0</td>
<td>4.2</td>
<td>+19</td>
</tr>
<tr>
<td>Services</td>
<td>5.2</td>
<td>4.7</td>
<td>+11</td>
</tr>
<tr>
<td>Total</td>
<td>10.2</td>
<td>8.9</td>
<td>+15</td>
</tr>
</tbody>
</table>

- Construction and Services order book

- Acquisition of McNicholas
- Construction awards
- Construction revenue recognised
- Services awards
- Services revenue recognised
- June 2018 Construction and Services orderbook
Group net debt
Strong operating cash conversion\(^1\) of 107%

- Cash conversion consistently greater than 100% over the past five years
- Oracle ERP £90m investment complete – capex to normalise in FY19 (c.£30m-£35m)

\(^1\) Cash conversion is calculated as operating cash flows before movements in working capital, plus dividends received from joint ventures, divided by underlying operating profit.
\(^2\) Net debt is shown net of the impact of hedging instruments.
\(^3\) Non-underlying includes cash outflow in respect of prior year provisions for exiting Hong Kong and the Caribbean £15m, health and safety £3m, environmental £11m and Mouchel Consulting disposal £3m.
Contracting working capital flows
Improving working capital management

Working capital flows

<table>
<thead>
<tr>
<th>Working capital days</th>
<th>FY14</th>
<th>FY15</th>
<th>FY16</th>
<th>FY17</th>
<th>FY18</th>
</tr>
</thead>
<tbody>
<tr>
<td>WIP</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade receivables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accruals</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade payables&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>WC as % of revenue</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Working capital days:
- FY14: 80
- FY15: 60
- FY16: 40
- FY17: 20
- FY18: 0

WC as % of revenue:
- FY14: 12%
- FY15: 8%
- FY16: 4%
- FY17: 0%
- FY18: -4%

<sup>1</sup>Includes supply chain finance.
Construction and Services cash balances
Stable average net cash in Construction and Services

<table>
<thead>
<tr>
<th></th>
<th>FY 17</th>
<th></th>
<th>FY 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>June</td>
<td>-</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>Oct</td>
<td>100</td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Dec</td>
<td>150</td>
<td>50</td>
<td>-</td>
</tr>
<tr>
<td>March</td>
<td>200</td>
<td>150</td>
<td>100</td>
</tr>
<tr>
<td>June</td>
<td>250</td>
<td>200</td>
<td>-</td>
</tr>
</tbody>
</table>

1Cash balances exclude inter-company dividends.
Debt improvement plan underway
Average net debt expected to decrease

- Strong operational cash conversion maintained
  - >100% for last five years before working capital
- No new cash investment in Property and Residential
  - Asset base sufficient to achieve Vision 2020 targets
- Working capital debtor and WIP collection improved
  - Stable supply chain finance utilisation
- Construction and Services divisions generating cash in excess of profit
- Group average net debt expected to decrease
  - £20m-£40m annual free cash flow in FY19 and thereafter
  - Accelerate net debt reduction driven by the benefits of the Future Proofing Kier programme, c.£20m in FY20
  - Targeted proceeds of £30-£50m from disposals of non-core businesses

<table>
<thead>
<tr>
<th>Average net debt drivers</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FY17</strong></td>
<td></td>
</tr>
<tr>
<td>McNicholas cash acquisition costs</td>
<td>26</td>
</tr>
<tr>
<td>Construction volumes Q2/Q3</td>
<td>19</td>
</tr>
<tr>
<td>IT implementation (Oracle)</td>
<td>20</td>
</tr>
<tr>
<td>Average non-underlying cash flows</td>
<td>23</td>
</tr>
<tr>
<td>Free cash after dividends</td>
<td>(33)</td>
</tr>
<tr>
<td><strong>FY18</strong></td>
<td>375</td>
</tr>
</tbody>
</table>
Joint ventures

Capital efficient model

- Joint ventures provide capital efficient sources of funding
  - 29 JV assets in Property
  - 9 trading assets in Residential
- Loan to value 35%
  - Based on debt drawn and committed
  - Supported by full term GDV
- 85% non-recourse debt model
  - £73m recourse debt at 30 June 2018
  - £24m expired in September 2018
  - 50% expired by 31 December 2018
- Capital efficient model trebles value of assets under development

<table>
<thead>
<tr>
<th>Joint venture financials</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment on balance sheet</td>
<td>226</td>
</tr>
<tr>
<td>Kier committed investment</td>
<td>27</td>
</tr>
<tr>
<td>Partners investment</td>
<td>104</td>
</tr>
<tr>
<td>Partners committed investment</td>
<td>14</td>
</tr>
<tr>
<td>Debt drawn</td>
<td>283</td>
</tr>
<tr>
<td>Debt committed</td>
<td>133</td>
</tr>
<tr>
<td>GDV</td>
<td>1,181</td>
</tr>
<tr>
<td>LTV</td>
<td>35%</td>
</tr>
<tr>
<td>Average equity</td>
<td>68%</td>
</tr>
</tbody>
</table>
## Pensions

Strong performance with pension schemes now in surplus

<table>
<thead>
<tr>
<th>Group Pension Schemes:</th>
<th>At 30 June 2018 £m</th>
<th>At 30 June 2017 £m</th>
<th>Change £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value of assets</td>
<td>1,681</td>
<td>1,637</td>
<td>+44</td>
</tr>
<tr>
<td>Present value of liabilities</td>
<td>(1,673)</td>
<td>(1,721)</td>
<td>+48</td>
</tr>
<tr>
<td>Asset/(liability) in the schemes</td>
<td>8</td>
<td>(84)</td>
<td>+92</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>(1)</td>
<td>14</td>
<td>-15</td>
</tr>
<tr>
<td>Net pension asset/(liability)</td>
<td>7</td>
<td>(70)</td>
<td>+77</td>
</tr>
</tbody>
</table>

| Key assumptions:                        |                     |                    |           |
| Discount rate                           | 2.80%               | 2.65%              |           |
| Inflation rate – RPI                    | 3.00%               | 3.20%              |           |
| Inflation rate – CPI                    | 1.90%               | 2.10%              |           |

- Net pension surplus of £7m driven by asset gains
- Triennial valuation commences in March 2019
## Guidance

<table>
<thead>
<tr>
<th></th>
<th>FY19</th>
<th>FY20</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit¹</td>
<td>On track for Vision 2020 targets</td>
<td>£200m before Future Proofing Kier programme benefits</td>
</tr>
<tr>
<td>Finance costs</td>
<td>Proportional with average net debt</td>
<td></td>
</tr>
<tr>
<td>Tax rate</td>
<td>c.19%</td>
<td></td>
</tr>
<tr>
<td>Free cash flow</td>
<td>c.£20m-£40m pa (excluding disposal proceeds)</td>
<td>c.£40m-£60m after benefits of Future Proofing Kier (excluding disposal proceeds)</td>
</tr>
<tr>
<td>Pension contribution</td>
<td>c.£24m (including impact of McNicholas)</td>
<td>Reducing subject to March 2019 triennial valuation</td>
</tr>
<tr>
<td>Capex (incl. finance leases)</td>
<td>c.£30m-£35m</td>
<td>c.£30m-£35m</td>
</tr>
<tr>
<td>Dividend</td>
<td></td>
<td>Target 2x dividend cover</td>
</tr>
</tbody>
</table>

¹ Divisional guidance break out on slide Reporting Structure slide.
Financial summary

- Good performance
- All divisions performing well
- Earnings per share\(^1\) of 116.7p up 9%
- Stable net investment in Property and Residential divisions
- Record order book of c.£10.2bn
- Pension now in surplus
- Full year dividend of 69.0p up 2%
- Average net debt to reduce, driven by free cash flow and benefits of the Future Proofing Kier programme

\(^1\)Arising on continuing operations, stated before non-underlying items.
Market positions
## Market-leading positions

- Focus on UK markets with robust, long-term fundamentals
- Leading positions to support optimum trading performance
- Asset businesses with enhanced returns, utilising free cash flow

### Build

<table>
<thead>
<tr>
<th>Major projects</th>
<th>Mid-sized projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highways</td>
<td>Rail</td>
</tr>
<tr>
<td>Utilities &amp; Power Gen</td>
<td>General Civils &amp; other</td>
</tr>
</tbody>
</table>

### Maintain

<table>
<thead>
<tr>
<th>Minor works</th>
<th>Maintenance &amp; services</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Market leader</td>
</tr>
</tbody>
</table>

### Infrastructure Services

- Market leader
- c.£2bn Revenue
- c.70% revenue across repeat clients and multiple services

### Buildings

- Market leader
- c.£2bn Revenue
- Education & Health
- Central Government
- Local Government
- Private commercial & other

### Developments & Housing

- Top 3
- c.£1bn Revenue
- Property Development
- Housing – New Build
- Housing – Maintenance

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Well-diversified portfolio
Significant opportunity for growth

Strong balance and diversification of activities
- Greater resilience as each business operates in different cycles
- Minimal cyclicalty – essential every-day activities
- Leading market positions provide competitive advantages

Lower risk profile to future earnings
- c.50% of profits from Services
- Average Construction project value £7-8m
- Principally non-speculative property development
- Modestly priced homes in the UK regions

1 See pages 43 to 44 in the appendix for reconciliation
Infrastructure Services

FY18 Revenue

- Construction Services: £1.7bn (25% of total)
- Highways: £1.7bn (54% of total)
- Rail: £1.7bn (14% of total)
- Power: £1.7bn (6% of total)
- Water: £1.7bn (5% of total)
- Telco: £1.7bn (1% of total)
- Other: £1.7bn (0% of total)

Future

- Highways – Maintenance: Stable
- Highways – Capital: Growth
- Rail: Growth
- Power: Growth
- Water: Growth
- Telco: Growth

Markets

- £bn
  - Highways: 4 (Capital works: 2, Maintenance: 2)
  - Rail: 2 (Capital works: 1, Maintenance: 1)
  - Power: 10 (Capital works: 5, Maintenance: 5)
  - Water: 2 (Capital works: 1, Maintenance: 1)
  - Telco/other: 2 (Capital works: 1, Maintenance: 1)
# Infrastructure Services

## Highways
- Repairs and maintenance stable
  - Areas 3, 6, 8 and 9 extensions achieved
- RIS2 up to £30bn
  - Significantly increased spend
- Capital works increasing
  - Four Smart Motorways projects now 100% Kier
    - Two M6 schemes: M20, M23 secured
    - £5bn over 10-12 years
  - Routes to Market
    - 5 UK regions
    - c.£8bn spend to 2024

## Utilities
- Leading player in the UK with McNicholas
- AMP7 totex c.£44bn, similar to AMP6
  - Anglian, Thames, Severn Trent, South West Water, etc
- £7bn investment in fibre/broadband
  - Virgin Media, Gigaclear

## Infrastructure projects
- Power generation
  - Hinkley, Wylfa, Sizewell, CCGTs
- HS2 – C2, C3; significant future opportunities
  - Rail systems and electrification, new stations
- CP6 c.£36bn; >20% more than CP5
  - Focus on renewals
Buildings

- £67bn addressable market
- Disciplined approach
  - Contract selection
  - Terms & conditions
  - Cash generation
  - Supply chain partners
- Focus on frameworks
  - >70% by volume
  - Leading Education and Health provider
- Four live projects >£50m in value
- Dominant presence in the regions
  - London activity <10% revenue

FY18 Revenue

- Construction: £1.8bn (91%)
- Services / Maintenance: £1.8bn (9%)

Markets

- Education: £35bn (45%)
- Health: £15bn (29%)
- Other public: £10bn (7%)
- Private capital works: £29bn (29%)
- Private maintenance: £10bn (7%)

- £bn
- Capital works
- Maintenance

- Education
- Health
- Other public
- Private capital works
- Private maintenance
Buildings

Future

- Growth forecast to be ahead of market
  - 20%+ over next two years
  - National coverage
  - Strength of our market positions
    - e.g. Education and Health
  - New sectors
    - Aviation, Bioscience, Defence
  - 90% secured for FY19

<table>
<thead>
<tr>
<th></th>
<th>FY18 revenue</th>
<th>Tender activity for FY20+</th>
<th>Pre-tender pipeline for FY20+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>£900m</td>
<td>£900m</td>
<td>&gt;£2bn</td>
</tr>
<tr>
<td>Health</td>
<td>£200m</td>
<td>£500m</td>
<td>&gt;£700m</td>
</tr>
<tr>
<td>Private</td>
<td>£600m</td>
<td>£700m</td>
<td>&gt;£900m</td>
</tr>
</tbody>
</table>
Developments & Housing

Property Developments

- Top 3 trader developer
- 32 schemes traded this year, c.80% outside M25
- Stable capital investment
- Capital efficient joint ventures increasing
  - Client preferred route to market
- Maintain non-speculative approach
- >15% ROCE consistently achieved with £1.5bn development pipeline
- Significant benefit to the Group
  - Generates >£100m revenue for other parts of the Group
  - Delivers excellent returns
  - Provides clients with development expertise

FY18 Revenue

- Property
- Housing – New build
- Housing - Maintenance

Markets

- Property developments
  - Mixed use
  - Offices
  - Student accommodation
  - Retail and leisure
  - Industrial
- Housing
  - New build
  - Maintenance

£1.0bn

33%
30%
37%

c.£500m asset base (cost)
Developments & Housing

Housing – new build
- Vision 2020 target of 15% ROCE achieved two years early
- Stable capital investment
- Average house price c.£240k
- Secured pipeline of £2bn over next 5+ years
- Help to Buy accounts for 50% of sales
- Increasing use of joint ventures – e.g. Homes England, Cross Keys
- Similar operating models sought by other clients

Housing – maintenance
- Post Grenfell challenges for clients
- Competition for limited ‘usual’ workload
- Agile workforce and broader client relationships help to mitigate this

Secured pipeline – new build

<table>
<thead>
<tr>
<th>Year</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>400</td>
</tr>
<tr>
<td>2020</td>
<td>300</td>
</tr>
<tr>
<td>2021</td>
<td>200</td>
</tr>
<tr>
<td>2022</td>
<td>100</td>
</tr>
<tr>
<td>2023</td>
<td>50</td>
</tr>
</tbody>
</table>

Revenue level 2018
Future Proofing Kier programme
Future Proofing Kier programme (FPK)
Simplify and streamline to accelerate growth

▪ Focus on core operations with strong growth prospects
  – Where we have or can achieve market-leading positions
  – Where we can achieve superior and stable returns
  – Exit activities where this cannot be or is unlikely to be achieved in the short-term

▪ Implement the Future Proofing Kier programme
  – Better client service
  – Greater operational focus and efficiency
  – Improved cash generation and profitability
  – Accelerated reduction in net debt
  – Exit non-core activities
## Future Proofing Kier programme

**Good progress to date**

<table>
<thead>
<tr>
<th>Further potential within Kier</th>
<th>Drive productivity and efficiencies</th>
<th>Actions to date</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Significant investment in new systems over past two years</td>
<td>▪ Remove unnecessary processes and automate</td>
<td>▪ Senior management changes completed</td>
</tr>
<tr>
<td>▪ Opportunity to fully capture the benefits of the scale and scope of the Group</td>
<td>▪ Outsource/consolidate high volume operations</td>
<td>▪ FPK Transformation Office established to drive programme implementation</td>
</tr>
<tr>
<td></td>
<td>▪ Focus on high value activities</td>
<td>▪ External partner appointed</td>
</tr>
<tr>
<td></td>
<td>▪ Invest in technology to improve ways of working</td>
<td></td>
</tr>
</tbody>
</table>

### Future Proofing Kier programme timeline

- **Diagnostic**
- **Design and Implementation**
- **Net benefits realised**

- **FY19**
- **FY20**
Future Proofing Kier programme
Significant profit and cash flow benefit

- **FY19**
  - Neutral financial impact on profit and cash flow
  - Savings delivered = costs of implementation
  - Phasing
    - Costs likely to exceed savings in H1

- **FY20**
  - Profit and cash flow benefits of at least £20m
  - Net savings of >10% operating profit

- **Non-core disposals**
  - Execution underway
  - Targeted proceeds of £30m-£50m

Net benefit in FY20

![Net benefit in FY20](image)
## Future Proofing Kier programme

**Net cash by June 2021**

<table>
<thead>
<tr>
<th></th>
<th>2018</th>
<th>2021 target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets – cost</td>
<td>£500m</td>
<td>£500m</td>
</tr>
<tr>
<td>Assets – value</td>
<td>£650m</td>
<td>£650m</td>
</tr>
<tr>
<td>Average net (debt)</td>
<td>£(375)m</td>
<td>£(250)m</td>
</tr>
<tr>
<td>Year end net (debt)/cash</td>
<td>£(186)m</td>
<td>net cash</td>
</tr>
</tbody>
</table>

- **Existing £20m-£40m free cash in FY19 and thereafter**
- **FPK cash flow benefits**
  - £20m annually in FY20
  - £30m-£50m from non-core disposals
- **One turn of EBITDA improvement in cash by FY21**
- **Net cash by June 2021**
Robust and diversified business model
Supporting strong market-leading positions

Drivers of above market growth

- Significant government and regulated sectors investment plans
- Population growth increasing demand for economic infrastructure

Delivering for stakeholders

- Target of 10% profit growth to FY20 (annual average)
- Record level order books
- Market-leading positions, well diversified model

Infrastructure Services

- Key sector growth – Aviation, Bioscience, Defence, Education, Health
- Population growth increasing demand for social infrastructure

Buildings

- Significant long-term demand for affordable housing
- Partnership model/JVs increasingly of interest
- Strong regional markets

Developments & Housing

- Strict risk management
- Strong, long-term client relationships
- Lower risk profile activities e.g. frameworks
- Strengthening balance sheet supplemented by FPK

Growth

Sustainable Returns

- Strong cash generation, improved by FPK
- Limited capital consumption
- Good income potential

Attractive Income
Summary and outlook

- Good 2018 trading performance
  - All divisions contributed well
  - Excellent safety record
- Well-diversified business model
  - Greater resilience, reduced cyclicality
- Record order books and pipelines
- Increasing dividend with cover growing
- Launched FPK programme
  - Better client service
  - Greater operational efficiency
  - Improved cash generation and profitability
  - Accelerated reduction in net debt

Strong platform

- Market leading positions
- Sustainable growth
- Improving returns
- Strengthening balance sheet
Appendices
Reporting structure

Four divisions realigned to three markets

<table>
<thead>
<tr>
<th>FY18 Actual</th>
<th>2018 revenue</th>
<th>FY18 Actual</th>
<th>Vision 2020 equivalent</th>
</tr>
</thead>
<tbody>
<tr>
<td>5% margin</td>
<td>Services</td>
<td>41%</td>
<td>Infrastructure Services</td>
</tr>
<tr>
<td></td>
<td>Construction</td>
<td>46%</td>
<td>Buildings</td>
</tr>
<tr>
<td>2% margin</td>
<td>Residential</td>
<td>8%</td>
<td>Developments &amp; Housing</td>
</tr>
<tr>
<td>15% ROCE</td>
<td>Property</td>
<td>5%</td>
<td></td>
</tr>
</tbody>
</table>

Vision 2020 equivalent

- ROCE: 4% margin
- 4.0%-4.5% margin
- ROCE: 3% margin
- 2.5%-3.0% margin
- ROCE: 20%
- ROCE: > 15%
## Reporting structure

Four divisions realigned to three markets

<table>
<thead>
<tr>
<th>Division</th>
<th>Order book £bn</th>
<th>Pipeline £bn</th>
<th>Revenue £m</th>
<th>Operating profit £m</th>
<th>Operating margin %</th>
<th>ROCE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
<td>1.5</td>
<td>218.0</td>
<td>34.0</td>
<td>27</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>2.0</td>
<td>374.3</td>
<td>25.9</td>
<td>15</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>5.0</td>
<td>2,052.5</td>
<td>41.9</td>
<td>2.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td>5.2</td>
<td>1,848.5</td>
<td>93.0</td>
<td>5.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate</td>
<td>-</td>
<td>(34.8)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group</strong></td>
<td><strong>10.2</strong></td>
<td><strong>3.5</strong></td>
<td><strong>4,493.3</strong></td>
<td><strong>160.0</strong></td>
<td><strong>3.6</strong></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Division</th>
<th>Order book £bn</th>
<th>Pipeline £bn</th>
<th>Revenue £m</th>
<th>Operating profit £m</th>
<th>Operating margin %</th>
<th>ROCE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure Services</td>
<td>5.9</td>
<td>1,713.9</td>
<td>68.2</td>
<td>4.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td>3.8</td>
<td>1,777.5</td>
<td>54.5</td>
<td>3.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing &amp; Developments</td>
<td>0.5</td>
<td>3.5</td>
<td>1,001.9</td>
<td>72.1</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Corporate</td>
<td>-</td>
<td>-</td>
<td>(34.8)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Group</strong></td>
<td><strong>10.2</strong></td>
<td><strong>3.5</strong></td>
<td><strong>4,493.3</strong></td>
<td><strong>160.0</strong></td>
<td><strong>3.6</strong></td>
<td></td>
</tr>
</tbody>
</table>
IFRS 15

- Expected impact of c.£20m to opening reserves driven by:
  - Move to use of cost as the measure of progress rather than revenue
  - De-recognition of certain claims and milestones in forecasting project outcomes
- Under IFRS 15 the hurdle for recognition of revenue is substantially higher than previous standards. Recognition of some items to occur later in projects
- Most of the impact to Construction
  - Minimal impact to Property, Residential and Services
- Timing impact only – no effect on profitability of individual contracts
- No impact to cash flows or net debt
## Free cash flow

<table>
<thead>
<tr>
<th>Description</th>
<th>30 June 2018 £m</th>
<th>30 June 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying operating profit</td>
<td>160.0</td>
<td>145.6</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>33.0</td>
<td>27.4</td>
</tr>
<tr>
<td><strong>Underlying EBITDA</strong></td>
<td>193.0</td>
<td>173.0</td>
</tr>
<tr>
<td>JV dividends and return of equity, less share of profits</td>
<td>24.9</td>
<td>(5.7)</td>
</tr>
<tr>
<td>Working capital movement</td>
<td>26.6</td>
<td>(48.7)</td>
</tr>
<tr>
<td>Capex</td>
<td>(67.4)</td>
<td>(70.8)</td>
</tr>
<tr>
<td>Net interest</td>
<td>(20.8)</td>
<td>(17.3)</td>
</tr>
<tr>
<td>Tax</td>
<td>(9.9)</td>
<td>(3.8)</td>
</tr>
<tr>
<td>Pension</td>
<td>(26.6)</td>
<td>(31.3)</td>
</tr>
<tr>
<td>Non-underlying</td>
<td>(32.0)</td>
<td>66.6</td>
</tr>
<tr>
<td>All other movements</td>
<td>(14.9)</td>
<td>(0.3)</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td><strong>72.9</strong></td>
<td><strong>61.7</strong></td>
</tr>
<tr>
<td>Net investment in joint ventures</td>
<td>(66.5)</td>
<td>(23.3)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(67.6)</td>
<td>(49.7)</td>
</tr>
<tr>
<td>Acquisitions and disposals</td>
<td>(14.4)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in Net debt</strong></td>
<td><strong>(75.6)</strong></td>
<td><strong>(11.3)</strong></td>
</tr>
<tr>
<td>Opening Net debt$^1$</td>
<td>(110.1)</td>
<td>(98.8)</td>
</tr>
<tr>
<td>Closing Net debt$^1$</td>
<td>(185.7)</td>
<td>(110.1)</td>
</tr>
</tbody>
</table>

$^1$ Net debt is shown net of the impact of hedging instruments.
### Joint venture financials – capital efficient developments for Kier

#### JOINT VENTURE – £50m GDV

- £30m SPV non-recourse debt
- £10m equity
  - £9m Kier / £1m JV partner
- £3m finance costs
- £7m operating profit
  - £6.3m Kier / £0.7m JV partner

#### OWNED – £50m GDV

- £40m Kier equity
- £10m Kier operating profit

#### Kier cash flow

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>JV investment</td>
<td>(£9m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividend</td>
<td></td>
<td>(£15.3m)</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Return on equity</td>
<td></td>
<td>c.25%</td>
<td></td>
</tr>
</tbody>
</table>

#### Kier cash flow

<table>
<thead>
<tr>
<th>Year</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>(£10m)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WIP</td>
<td>(£20m)</td>
<td>(£10m)</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td>£50m</td>
<td></td>
</tr>
<tr>
<td>Return on equity</td>
<td></td>
<td>c.18%</td>
<td></td>
</tr>
</tbody>
</table>

1 Data for illustrative purposes only.
2 Reflected as profit on disposal of joint ventures or dividends received from joint ventures.
## Joint venture impact on interest and tax

<table>
<thead>
<tr>
<th></th>
<th>FY18 £m</th>
<th></th>
<th>FY17 £m</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Reported¹</td>
<td>JV int &amp; tax</td>
<td>Adjusted</td>
<td>Reported¹</td>
</tr>
<tr>
<td>EBIT</td>
<td>160.0</td>
<td>8.3</td>
<td>168.3</td>
<td>145.6</td>
</tr>
<tr>
<td>Interest</td>
<td>(23.1)</td>
<td>(8.0)</td>
<td>(31.1)</td>
<td>(19.5)</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>136.9</td>
<td>0.3</td>
<td>137.2</td>
<td>126.1</td>
</tr>
<tr>
<td>Tax</td>
<td>(23.3)</td>
<td>(0.3)</td>
<td>(23.6)</td>
<td>(21.9)</td>
</tr>
<tr>
<td>Profit after tax</td>
<td>113.6</td>
<td>-</td>
<td>113.6</td>
<td>104.2</td>
</tr>
</tbody>
</table>

¹ Stated before non-underlying items.
Joint venture reporting

Profit and cash

<table>
<thead>
<tr>
<th>Profit Generated</th>
<th>30 June 2018 £m</th>
<th>30 June 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of post tax results of joint ventures</td>
<td>42.7</td>
<td>25.0</td>
</tr>
<tr>
<td>Profit on disposal of joint ventures</td>
<td>3.5</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>46.2</strong></td>
<td><strong>30.4</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Received</th>
<th>30 June 2018 £m</th>
<th>30 June 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends received and return of equity from joint ventures</td>
<td>71.1</td>
<td>23.2</td>
</tr>
<tr>
<td>Proceeds from sale of joint ventures</td>
<td>4.9</td>
<td>26.0</td>
</tr>
</tbody>
</table>

- Route to profit recognition is determined by the disposal method which can be either:
  - Sale of the asset
  - Sale of the joint venture vehicle
- Net outcome is equivalent to net debt
- Route is driven by acquirer’s tax strategy
## Investments portfolio (as at 30 June 2018)

<table>
<thead>
<tr>
<th>Project</th>
<th>Status</th>
<th>Capital value £m</th>
<th>Kier equity/loan stock £m</th>
<th>Equity %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Authority</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social Power, Harlow</td>
<td>In operation</td>
<td>1.1</td>
<td>1.1</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Student accommodation</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Glasgow (direct let)</td>
<td>In operation</td>
<td>22</td>
<td>3.9</td>
<td>75.0</td>
</tr>
<tr>
<td>Newcastle (direct let)</td>
<td>In operation</td>
<td>31</td>
<td>9.8</td>
<td>75.0</td>
</tr>
<tr>
<td>Southampton (direct let)</td>
<td>In construction</td>
<td>37</td>
<td>9.3</td>
<td>75.0</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Ayrshire Schools</td>
<td>In construction</td>
<td>43</td>
<td>1.0</td>
<td>24.0</td>
</tr>
<tr>
<td>South Ayrshire Schools</td>
<td>In operation</td>
<td>24</td>
<td>0.6</td>
<td>24.0</td>
</tr>
<tr>
<td>Queen Margaret Schools</td>
<td>In construction</td>
<td>25</td>
<td>0.6</td>
<td>24.0</td>
</tr>
<tr>
<td><strong>Committed Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td>£26.3m</td>
</tr>
</tbody>
</table>

Of the £26.3m committed, £24.6m has been invested to date..
Disciplined risk management
Application across contracting businesses

**INFRASTRUCTURE SERVICES**

- **Lower value works**
  - £2m average
  - Schedule of rates

- **Cost plus**
  - JV to manage resource

- **Target cost**
  - JV to manage resource

**BUILDINGS**

- **Two stage and frameworks**
  - £7-8m average;
  - <12 month duration
  - Long-standing client relationships

**75% SERVICES**

- **Lower risk**
  - e.g. Highways England

**HINKLEY**

- **Lower risk**
  - Focus on people, cash flows, terms and conditions

**CROSSRAIL**

- Education
- Health
- Commercial
- Mixed-use
- Aviation
- Defence
- Bioscience
Supply chain finance illustrated

Invoice date

Draw down possible bank pays supplier

Normal payment terms

Kier pays bank

Day 0

21

60

75

90

Supply chain benefit at <2% interest cost

Potential working capital effect £30-60m

£150 – 170m average utilisation*

*Included in trade payables.
## Financing facilities

<table>
<thead>
<tr>
<th>Facility type</th>
<th>Maturity</th>
<th>30 June 2018 £m</th>
<th>30 June 2017 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>RCF</td>
<td>2022</td>
<td>670</td>
<td>400</td>
</tr>
<tr>
<td>US Private Placement(^1)</td>
<td>2019-2024</td>
<td>183</td>
<td>183</td>
</tr>
<tr>
<td>Schuldschein Loan Notes(^1)</td>
<td>2019-2023</td>
<td>81</td>
<td>81</td>
</tr>
<tr>
<td>Bilateral Bank Loans</td>
<td></td>
<td>-</td>
<td>50</td>
</tr>
<tr>
<td>Overdraft Facilities</td>
<td>On demand</td>
<td>53</td>
<td>45</td>
</tr>
<tr>
<td>Other Finance</td>
<td>2019 onwards</td>
<td>26</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>1,013</strong></td>
<td><strong>775</strong></td>
</tr>
</tbody>
</table>

\(^1\) Stated net of effect of derivatives.
## Kier Highways – Services by Area

<table>
<thead>
<tr>
<th>Area</th>
<th>Design</th>
<th>M&amp;R</th>
<th>Schemes</th>
<th>DCP</th>
<th>Renewal Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>South West DSC</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>July 2022</td>
</tr>
<tr>
<td>(Areas 1&amp;2)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Area 7 DSC</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
<td>April 2021</td>
</tr>
<tr>
<td>Area 3 ASC</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>2021</td>
</tr>
<tr>
<td>Area 9 ASC</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>September 2019</td>
</tr>
<tr>
<td>Area 13 M&amp;R</td>
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<td></td>
<td>✓</td>
<td>✓</td>
<td>April 2027</td>
</tr>
</tbody>
</table>
Safety, Health and Environment

- Kier Group AIR 96 (2017: 130)
- Vision 2020 Targets
  - Accident incidence rate of zero
  - Best in sector safety performance
  - Workforce health and wellbeing improved
  - Minimise the impact of our activities on the environment
  - All employees take ownership of safety, health and environmental issues

**Current Progress**

<table>
<thead>
<tr>
<th>Leading indicators – examples</th>
<th>2018 target</th>
<th>Actual June 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director/senior manager visible leadership visits</td>
<td>300 / month</td>
<td>590 ✔</td>
</tr>
<tr>
<td>Front line management trained</td>
<td>90%</td>
<td>83%</td>
</tr>
<tr>
<td>Reduction in sickness absence referrals</td>
<td>123</td>
<td>142</td>
</tr>
</tbody>
</table>

**Accident Incidence Rate – June 2018**

![Graph showing accident incidence rate progression from 2014 to 2018 with benchmarks and actual values.](chart.png)