ORDER BOOK
OF £10.2BN PROVIDING FUTURE VISIBILITY

The Group's underlying performance for the year ended 30 June 2018 was robust with revenue and profit growth in line with expectations. The Group has a record order book of £10.2bn and a small pension surplus which has contributed to the strengthening of the balance sheet. The Group's net debt remains a key area for focus and this increased in the year driven by the McNicholas acquisition made in July 2017 and the cash outflows associated with historic provisions.

Accounting polices and segmental reporting

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). There have been no significant changes to the accounting policies adopted by the Group during the year ended 30 June 2018.

The Group is close to concluding its project to assess the impact of IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments', both of which the Group will adopt in the year ending 30 June 2019.

In addition to these standards, the Group continues to work on assessing the impact of IFRS 16 'Leases'. As previously disclosed, the main impact of IFRS 16 will be to move the Group's larger, longer term operating leases, primarily in respect of property, onto the balance sheet, with a consequential increase in non-current assets and finance lease obligations. Operating lease charges included in administrative expenses will be replaced by depreciation and interest costs. The Group's first set of accounts prepared under this standard will be those for the year ended 30 June 2020.

Impact of IFRS 15

Supported by its external advisers, the Group has conducted a review by contract type for each of its businesses. This has highlighted that the key areas impacted are in the Construction division, where a detailed contract-by-contract assessment has been carried out. Following this review, the Group has assessed that there is minimal impact in our Property, Residential and Services businesses. It is important to note that whilst the replacement of IAS 11 and IAS 18 by IFRS 15 can impact on the timing of revenue and profit recognition of a long-term contract within an accounting period, it does not change the overall revenue, profit or cash generated by the contract. There may however, be a timing impact in terms of profit recognition on transition to IFRS 15 as individual contracts are moved from the measurement basis of one standard to another. The Group has elected to adopt the cumulative catch-up method of transition, wherein the results of the prior year are not restated but the initial impact of adopting the standard is taken to opening reserves. The main areas where the new standard will give rise to an adjustment on adoption occur in our Construction only business and are as follows:

- move to cost as a measure of progress: previously the Group used an output measure of progress, however, we will move to an input measure of progress as this better reflects the pattern of transfer of control to the customer;
- derecognition of certain variable revenue items in determining forecast project outcomes: IFRS 15 introduces a requirement for recognition of variable consideration (for example pain/gain shares and milestone payments) that is "highly probable not to reverse". We have therefore reviewed our construction contracts and concluded that recognition of some of these items will occur later in the projects; and
- third party claims: following the withdrawal of IAS 11 'Construction Contracts' we will need to comply with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets' when determining if we are able to recognise certain third party claims (such as insurance recoveries). These claims fell under the guidance of IAS 11 but they are not covered by similar provisions in IFRS 15. The requirements of IAS 37 are considerably more stringent than IAS 11, requiring recovery to be virtually certain before an asset can be recognised. These claims will therefore need to be de-recognised and accounted for in future periods, when the uncertainty over their recovery has been removed.

While our work over the impact of IFRS 15 is ongoing, the combined impact of the above adjustments is expected to be a charge to opening reserves at 1 July 2018 of approximately £20m. There is no material impact across the Services division, similarly, there is minimal impact on our Property and Residential divisions.

Impact of IFRS 9

IFRS 9 primarily impacts financial institutions; however, there are some changes to adopt for the Group. The main areas of the new standard and their expected impact are set out below:

- hedge accounting – this does not impact on the Group's accounting for its derivatives;
- impairment of financial assets – an "expect credit losses model" has been introduced whereby expected losses as well as incurred losses are provided for; and
- classification and measurement of financial assets – this will impact the Group's previous treatment of the costs of refinancing its borrowing facilities and may also impact on the measurement of certain financial assets.

The Group's work is ongoing in this area; however, the net impact of the above is not expected to be material.

Continuing operations		2018 Year ended 30 June	2017 Year ended 30 June	Change %
Revenue[1]		**£4.5bn**	£4.3bn	+5
Group revenue		**£4.2bn**	£4.1bn	+3
Operating profit	– Underlying[2]	**£160.0m**	£145.6m	+10
	– Reported[3]	**£134.4m**	£8.2m	
Profit/(loss) before tax	– Underlying[2]	**£136.9m**	£126.1m	+9
	– Reported[3]	**£106.2m**	£(14.2)m	
Earnings/(losses) per share	– Underlying[2]	**116.7p**	106.8p	+9
	– Reported (Basic)[3]	**90.8p**	(27.2)p	
Dividend per share		**69.0p**	67.5p	+2

Restatement of the prior year

The prior year results have been restated to include the disclosure of the non-underlying profit on disposal of Mouchel Consulting and associated tax in discontinued operations. Underlying results and total statutory profit are unaffected. In addition, the prior year cash flow statement has been restated to show the cash flows arising from the disposals of Mouchel Consulting and Biogen in investing activities rather than operating activities. Underlying cash flows are unaffected.

Underlying financial performance

The Group's operations have performed well in the 2018 financial year, with on or above-target returns being reported across the operating divisions. The completion of the Group's Oracle transformation programme in the fourth quarter of the year will materially enhance the Group's transactional processing, reporting, control and Shared Services functions moving forward.

Underlying operating profit[2] of £160.0m (2017: £145.6m) represents a 10% increase from the prior year and is the primary driver of the earnings per share[2] growth of 9% to 116.7p (2017: 106.8p). Underlying net finance costs[2] of £23.1m (2017: £19.5m) included £19.4m in respect of the Group's debt facilities, which rose 15% driven by the increase in average net debt and marginally higher borrowing costs. Other interest charges included £2.2m in respect of the pension scheme and £1.5m of discount unwind.

A number of items either relating to costs previously taken through non-underlying or similar in nature to those previously taken through non-underlying, have been taken through underlying in the current year. This is due to none being of sufficient size or incidence to warrant separate disclosure and the aggregate impact being immaterial. These items include further costs to close out the projects in Hong Kong and the Caribbean (£7m), integration costs (£2m), offset by negative goodwill and deemed profit on disposal (£3m), resulting from acquiring the remaining 50% of a design and facilities management business (KBESL), and releases in respect of a small number of immaterial provisions (£4m).

The stable operating platform reported on during the year means there are few differences between the Group's underlying performance measures and its reported statutory results. After deduction of non-underlying amortisation and finance costs totalling £30.7m, a statutory profit before tax of £106.2m (2017: loss of £14.2m) has been reported.

Group revenues of £4.5bn (2017: £4.3bn), including the share of joint ventures, have increased 5% on the prior year with growth across all divisions with the exception of the Residential division, which remained broadly flat. On an organic basis Group revenue was stable, with £217m being attributed to the McNicholas Group, which was acquired in July 2017.

The Property business closed the year with an asset base of c.£175m, and operated with average capital employed of £125m. The proportion of capital invested in joint ventures with our partners has increased to £133m representing 75% of the asset base.

Overall volumes, including share of joint ventures, have increased to £218m (2017: £182m) with the reported operating profit[2] of £34.0m (2017: £25.8m) representing a Return on Capital Employed (ROCE) of 27% (2017: 23%).

The reported volumes were generated across a diverse asset base with thirty-two discrete transactions completed in the year, with the largest asset disposal contributing only 6% of the overall gross profit. The asset base remains geographically spread with 81% of the portfolio held outside of the M25.

The Residential division continued its strategy of focusing on the affordable end of the UK housing market.

Revenues[1] of £374m (2017: £376m) and unit completions of 2,042 include the full year's impact of the Cross Keys Homes joint venture.

Cross Keys has operated well in its first full year of operation contributing £109m of revenue across 467 unit completions. Average selling prices in our open market business of £272k and £211k in our mixed tenure business reflect the product mix offered by the Group.

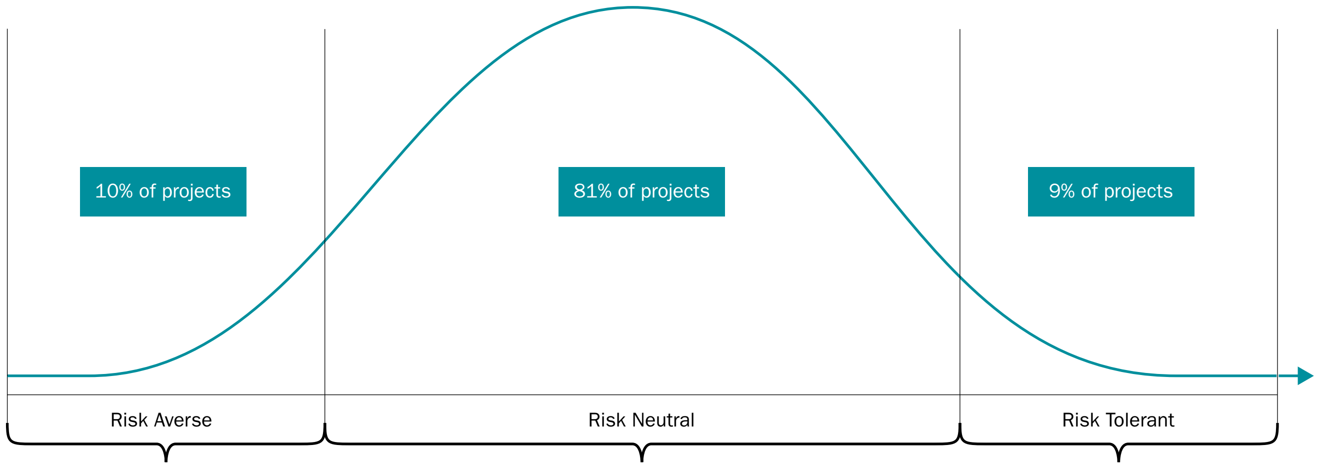
Operating profits[2] of £25.9m (2017: £22.8m) and an operating margin of 6.9% (2017: 6.1%) continue to improve as the land portfolio develops and our mixed tenure business matures. The private land bank of 2,380 units is supplemented by a further 1,517 units owned within our mixed tenure portfolio.

The closing asset base of c.£265m and associated average capital employed of £176m reflect the benefit of the Cross Keys transaction in the prior year and have resulted in a material improvement in the ROCE of this business to 15%, meeting its Vision 2020 target two years ahead of plan.

1 Group and share of joint ventures.
2 Stated before non-underlying items. See note 4 to the consolidated financial statements.
3 Prior year restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations.

Financial review continued

Construction risk profile



The Construction division revenue[1] of £2,053m (2017: £2,019m) represents an increase of 2%. On an organic basis, after adjusting for the acquisition of McNicholas, revenues have remained flat. A weaker first half of the year, with organic revenues falling by 10%, was compensated by a very strong fourth quarter.

Operating profits[2] of £41.9m (2017: £39.8m) and operating margins of 2.0% (2017: 2.0%) were in line with the prior year. Underlying profitability included £7m of charges in relation to the final cash settlements in Hong Kong, and the impact of hurricane-related delays on the final project in the Caribbean. The operating result of the Construction division was driven by strong and improving returns within the regional building business which mitigated the challenge on some completed projects within the infrastructure business. A record order book is reported of £5.0bn (2017: £4.2bn).

The business model within the Construction division remains in line with prior years with an average project size of £7-8m across a portfolio of c.400 projects, 70% of which are delivered under frameworks with standard terms and conditions and repeat customers. The contract type is a key indicator of inherent risk; the outline above highlights the Group's risk profile within the Construction division. 9% of the Group's projects are classed as risk tolerant with only 3% higher-risk, single-stage, non-framework projects.

The results of the Services division were underpinned by the highways and utilities businesses, with the latter being materially enhanced in the current year by the acquisition of the McNicholas Group on 12 July 2017. Overall, Services revenues[1] of £1,849m (2017: £1,688m) were 10% up on the previous year, and down 1% on an organic basis excluding the results of McNicholas. Of the overall revenues, 43% was driven by the highways business, 26% from the utilities business and 31% from the facilities management, housing maintenance and other service related businesses. Operating profit[2] of £93.0m (2017: £87.0m) and operating margins of 5.0% (2017: 5.2%) remain stable and are supported by an order book of £5.2bn, compared to £4.7bn in the previous year.

Non-underlying charges

Non-underlying charges in the year are in respect of non-cash amortisation of acquired contract rights of £26m and non-cash interest charges of £5m. The amortisation charges primarily relate to the acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017. The results of the mining operation continue to be disclosed in non-underlying as the Group continues to wind the business down.

Corporate activity

On 12 July 2017 the Group concluded its acquisition of the McNicholas Group for a cash consideration of £13m and acquired debt of £8m. Future consideration payments of £9m and £5m have been assumed in respect of future profitability and cash performance with the intention that any payment be self-funding. Post-acquisition, the Group has reduced the net assets acquired by £3m, the majority of which related to a provision for the Wheldons subsidiary business which was sold for a consideration of £0.1m in June 2018.

Working capital outflows in respect of the acquired business totalled £20m in the year to 30 June 2018.

In addition to the above, the Group is treating its pension administration business, acquired with the Mouchel Group, as an asset held for resale at the balance sheet date. The Group exchanged contracts on 17 September 2018 to dispose of the business for a total consideration of up to £3.5m, with completion expected in the first half of the 2019 financial year.

Joint ventures

Over the last three years the Group has materially invested in the Property and Residential divisions to drive increased returns. To continue to improve returns and mitigate risk to shareholder equity, the Group has pursued a strategy of investing with partners and debt providers to increase the breadth of the portfolio and reduce the overall volatility of earnings. The Group's clients and partners prefer this structure while, for Kier, the joint venture structure is the Group's preferred, and capital efficient, method of accessing the property market.

Twenty-nine out of forty-eight current projects within the Property division, and a further nine trading joint ventures within the Residential division, utilise this structure.

[1] Group and share of joint ventures.

[2] Stated before non-underlying items. See note 4 to the consolidated financial statements.

The Group currently invests in twenty-nine joint ventures in its Property division. The standard model is outlined in the chart below.

Using this model, the Group has invested £133m at the year end. These projects mature within 0–36 months of the year end with a Gross Development Value (GDV) of £0.6bn and an anticipated margin of 12%. As a consequence, the ROCE on these joint venture structures significantly exceeds the 27% reported for the division as a whole and is well in excess of the Group's 15% equity hurdle rate. The Group's average equity holding in these joint ventures is 63%.

In the 2018 financial year, the Property division completed nine of these joint ventures which returned to the Group £68m of dividend income once their single asset had been sold. The gross profit from these transactions, after the deduction of the original equity contribution, was £28m.

Control of joint ventures is aligned with board voting rights, disposals and acquisition rights and other operational control being equally split between the equity holder and debt holder.

Economic returns and post-interest costs are allocated on an equity ownership basis. Across the joint ventures portfolio, the debt to value ratio averages 50%, ranging from a low of 0% to a maximum of 70%.

The Group seeks to operate with asset holders in both the public and private sectors to bring its development, construction and asset management capabilities to bear in long-term trading relationships. These trading joint ventures generally have an element of secured debt within them, and provide the Group with access to sizeable asset registers that are held on its partners' balance sheets.

During the year, the Group entered into one such arrangement, the Kier Community Living joint venture with Cross Keys Homes and Homes England.

Kier contributed £27m of land and a further £9m of cash, while Homes England contributed material debt and equity and Cross Keys Homes contributed cash equity. Further ring-fenced, non-recourse debt has been agreed with banking partners to purchase further sites from the joint venture members and the open market with the intent to deliver c.500 affordable houses per annum.

This follows a similar model to the successful Kier Cross Keys Homes joint venture established in the previous year.

The Group operates similar trading joint ventures, either leveraged or equity only, with other public and private asset holders such as Network Rail, Shropshire County Council and Watford Borough Council.

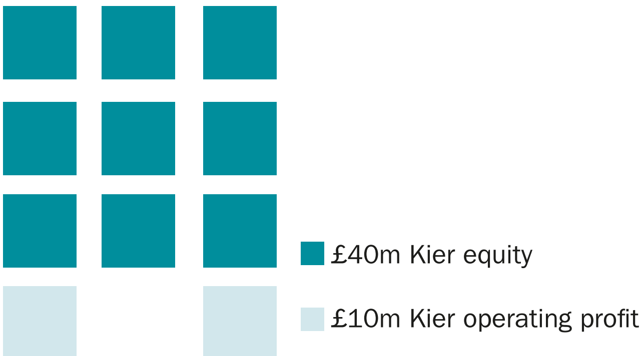
Recourse debt

The Group seeks to operate joint ventures with non-recourse debt secured on an asset-by-asset basis. Initially, prior to the model becoming proven with the asset finance market, the Group provided guarantees to debt providers. As at 30 June 2018, these guarantees totalled £73m, and of this total £35m is forecast to expire by December 2018.

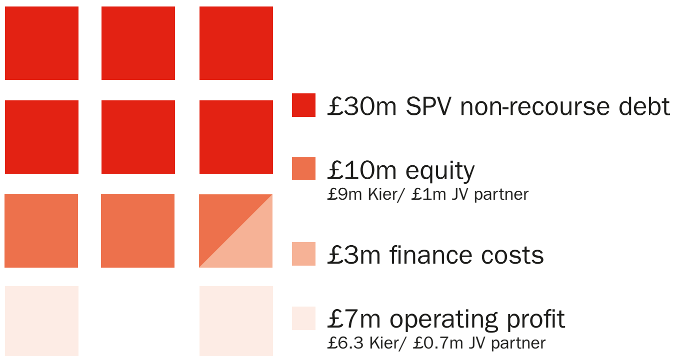
These contingent liabilities are disclosed in detail in note 14 to the consolidated financial statements. Asset values of the associated developments would have to fall by more than 50% for those liabilities to start to crystallise.

Joint ventures (the standard model)

Owned – £50m GDV[3]



Joint Venture – £50m GDV[3]



Kier cash flow	Year 0	Year 1	Year 2
Land	£(10)m		
WIP		£(20)m	£(10)m
Revenue			£50m
Return on equity			18%

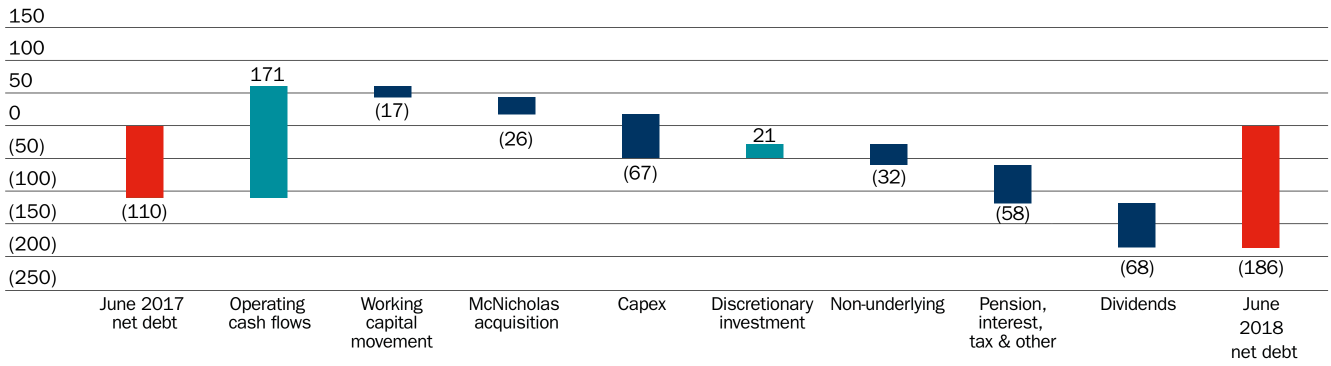
Kier cash flow	Year 0	Year 1	Year 2
JV investment	£(9)m		
Cash dividend[4]			£15.3m
Revenue			–
Return on equity			25%

3 Data for illustrative purposes only.

4 Reflected as profit on disposal of joint ventures or dividends received from joint ventures.

Financial review continued

Cash performance (£m)



Cash flow

The net debt[1] of the Group as at 30 June 2018 of £186m (2017: £110m) represents 95% of the Group's EBITDA for the current year and has increased by £76m from the 30 June 2017 balance. The drivers of the Group's cash flow performance are discussed below.

Operating inflows, including dividend income from joint ventures, were £171m and represent 107% of underlying operating profits. Working capital movements, after adjusting for net investment in property and residential assets, generated a small outflow in the year of £17m. This included £20m of working capital outflow in respect of McNicholas. Cash consideration, acquisition costs and acquired net debt associated with McNicholas totalled £26m.

Non-underlying cash flows represents cash outflows relating to provisions made in prior years and totalled £32m.

Capital expenditure for the year of £67m included £23m in respect of the Group's Oracle ERP systems, the roll-out of which concluded in May 2018. Pension payments of £27m include £1m of administration charges and £26m of deficit recovery payments. Cash interest in the year of £21m was £3m greater than in 2017 reflecting higher levels of average net debt and marginally higher borrowing costs. Cash taxation of £10m (2017: £4m) was paid to HMRC in the year reflecting the Group's utilisation of historical trading losses.

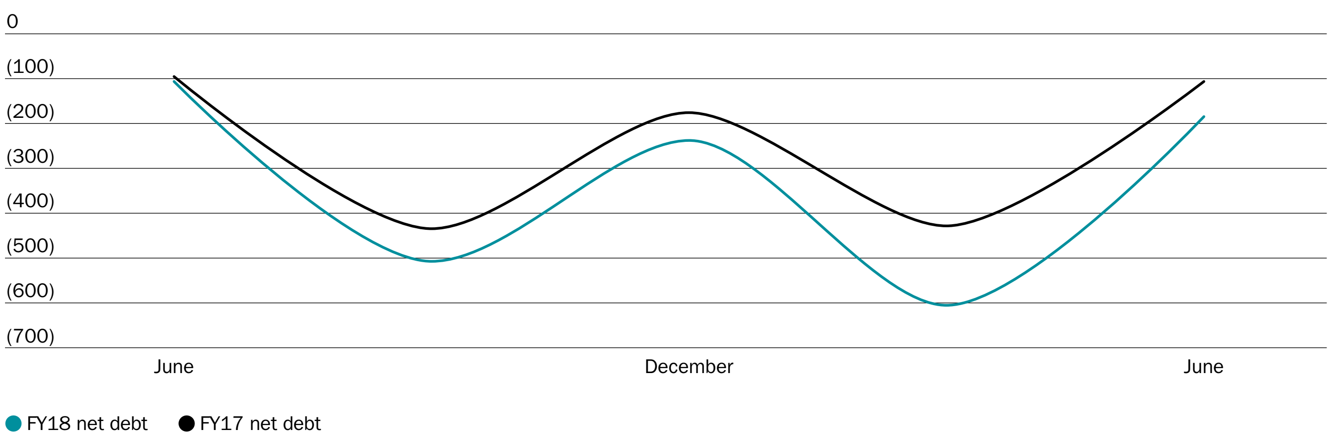
Cash dividends of £68m were paid in November 2017 and May 2018, with a DRIP dividend being offered as an alternative.

The Group's average net debt[1] of £375m (2017: £320m) was impacted by the mid-year slowdown in Construction volumes (£19m), and the average cash impact from the anticipated McNicholas acquisition costs (£26m), non-underlying items (£23m) and the Oracle ERP spend (£20m).

The Group offers its supply chain in the Construction division and open market Residential business the opportunity to participate in the Kier Early Payment Scheme (KEPS). Suppliers may choose to access payment from a group of banks after 21 days rather than our normal 60 day payment terms. Kier recompenses the participating banks directly after c.90 days. The balance owed on this facility is included within trade creditors.

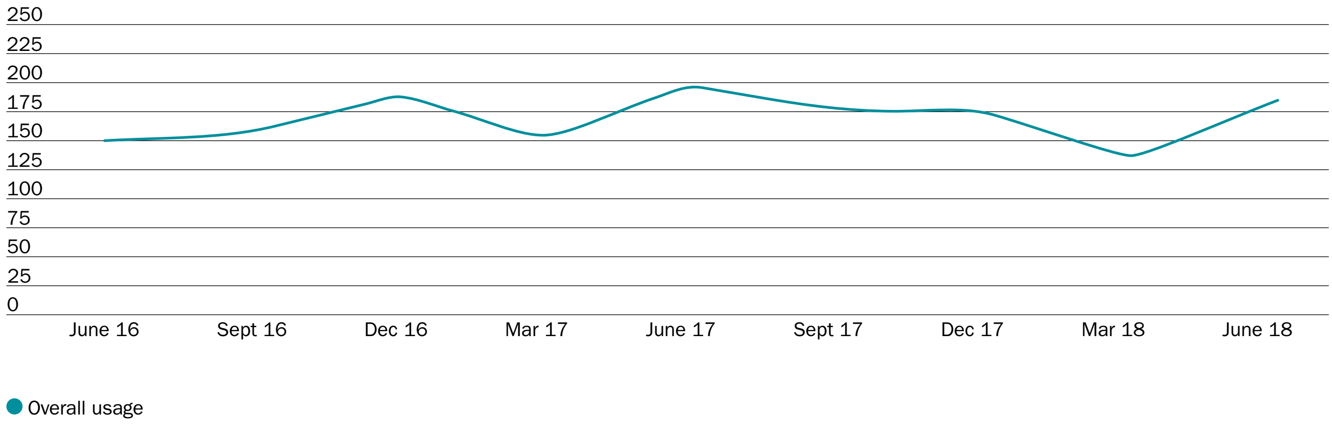
This scheme is offered to our supply chain, who are free to choose whether they wish to participate in the scheme, as well as the timing and amount of any funds they wish to draw down. The average month end balance included within trade creditors for the last two financial years is outlined in the diagram on page 55. The 30 June 2018 balance of £185m represents the peak utilisation in the year and this level is lower when compared to £197m at 30 June 2017. Utilisation of the facility was lower in the second half of 2018 when compared to the same period in 2017.

Group net debt (£m)



[1] Net debt is stated after the impact of hedging instruments.

KEPS total usage 2016 — 2018 (£m)



Pensions

The Group continues to improve its pension position across the portfolio of seven defined benefit pension schemes, with a net asset of £8m (2017: deficit £85m) being reported.

Cash contributions in respect of the Group's schemes, as assessed in the last triennial valuations, totalled £27m (2017: £31m). The current recovery plans assume a continuation at a slightly reduced level throughout the 2019 financial year, with future year obligations outlined in note 8 to the consolidated financial statements. Over the last three years, since the acquisition of the Mouchel Group in June 2015, the Group has contributed cash of £83m in respect of its obligations.

During the year the Group acquired the assets and obligations of the McNicholas defined benefit pension scheme which totalled £21m and £32m respectively, giving rise to a net acquired liability of £11m.

In addition to the contributions noted above, the combined Group schemes experienced another year of strong asset performance with a net increase in assets of £23m. This gain enabled the reported assets within the schemes to increase to £1,681m (2017: £1,637m).

The liabilities assessed by the actuaries have decreased to £1,673m (2017: £1,721m) with the Group benefiting from a slight softening of future RPI and CPI inflation rate assumptions.

The combined impact of the movements noted above is that the Group's pension asset of £8m at the balance sheet date, represents an improvement of £93m from the £85m deficit reported in the prior year.

The Group will be re-assessing its recovery plans and future cash contributions going forwards based on the deficit position at the March 2019 actuarial valuation on its four principle schemes. Three of these schemes are currently reporting a technical surplus under the IAS 19 accounting standard.

Treasury facilities and policies

The Group operates its treasury and working capital management processes under strict year-end and peak net debt disciplines. Actual facility usage is monitored on a daily basis, with non-treasury cash, primarily within joint venture accounts, consolidated weekly.

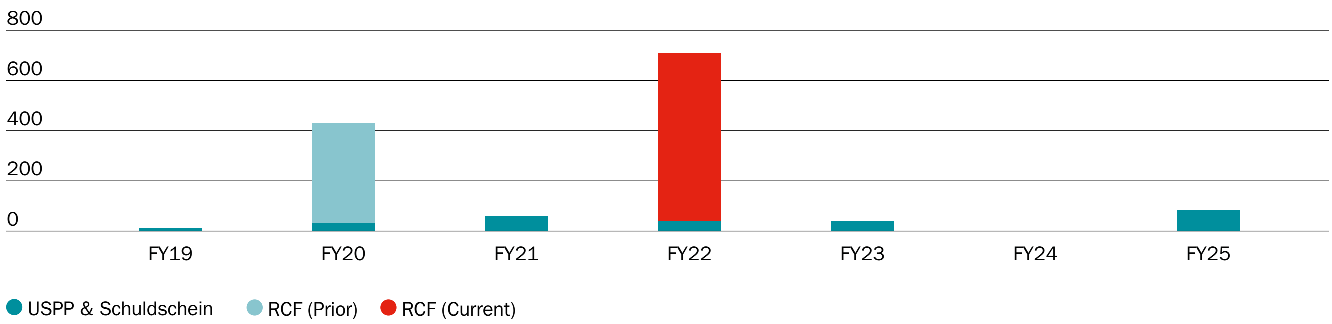
Rolling capital forecasts are maintained on a three-month, 12-month and 36-month basis and reviewed in conjunction with weekly working capital and cash reviews with treasury, finance and operational leadership.

In July 2017, the Group concluded a review of its existing Revolving Credit Facility (RCF). The Group extended those facilities for an additional two years to 2022 under improved terms and expanded its lending group to include additional members within the overarching RCF agreement.

The revised profile of the Group's committed facilities is outlined below, with 89% repayable after 2021.

The Group has £7.1m (2017: £14.3m) of finance lease obligations on the balance sheet at 30 June 2018. The overall reduction was predominantly driven by the ongoing exit of environmental services contracts.

Maturity of committed facilities (£m)



Financial review continued

Financial instruments

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

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

Dividend policy

The Board is proposing a final dividend of 46.0 pence per share on the 97m shares in issue. Combined with the interim dividend of 23.0 pence for shares in issue at March 2018, the total dividend declared this year of 69.0 pence (2017: 67.5 pence) represents a 2% increase on the prior year.

Going concern

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

The Group has significant financial resources, committed banking facilities, long-term contracts and long-term order books. Within net current liabilities of £(18.7)m, £62.8m of the £226.1m of joint venture assets (presented as non-current under IAS 28 para15) is expected to mature within one year of the balance sheet date. These assets represent property and residential investments that will be sold in the normal course of business. For these reasons, the directors continue to adopt the going concern basis in preparing the Group's 2018 financial statements. The full going concern statement is set out on page 60. A summary of the work undertaken by management and the Risk Management and Audit Committee (RMAC) to support this statement is set out on page 75.

Viability statement

The Board has assessed the viability of the Group over a three-year period ending 30 June 2021, as it is required to do under the UK Corporate Governance Code. The Board's statement is set out on page 60. A summary of the work undertaken by management and the RMAC to support this statement is set out on page 76.

Bev Dew
Finance Director

19 September 2018

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

Haydn Mursell
Chief Executive

Bev Dew
Finance Director

19 September 2018