

For release at 0700 hours on 19 September 2019

**Kier Group plc - FY2019 Results**  
**Kier, a leading construction and infrastructure services company, reports its results for the year ended 30 June 2019**

Commenting on the results, Andrew Davies, Chief Executive, said: “Kier experienced a difficult year, resulting in a disappointing financial performance. However, we are building firm foundations for the future: we have a new management team in place, we have defined our strategic priorities and we are taking decisive actions to deliver them. We have a strong order book, reflecting the strength of the underlying business, the quality of our people and the Group’s capabilities. The sale of Kier Living is progressing well and we are exploring options to accelerate the release of capital from our Property business. The re-shaping of the Group is designed to reduce its overall indebtedness during FY2020 and to restore Kier to robust financial health.”

**Financial Results**

	Year ended 30 June 2019 (£m, unless otherwise stated)	Year ended 30 June 2018 (£m, unless otherwise stated) <sup>4</sup>
Revenue <sup>1; 2</sup>	4,494	4,513
Operating profit <sup>2</sup>	124	187
Operating profit margin <sup>2</sup>	2.8%	4.1%
Profit before tax <sup>2</sup>	98	164
Basic earnings per share <sup>5</sup>	58.2p	136.8p
Full year dividend (interim)	4.9p	69.0p
Net debt <sup>3</sup>	167	186
<b>Statutory</b>	<b>Year ended 30 June 2019</b>	<b>Year ended 30 June 2018</b>
Group revenue	4,122	4,240
Operating (loss)/profit	(217)	134
(Loss)/profit before tax	(245)	106
Basic (loss)/earnings per share	(158.5)p	89.3p

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

<sup>2</sup> Operating profit is stated before exceptional items of £316.0m and amortisation of acquired intangible assets of £24.8m in FY2019. In FY2018, operating profit is stated before exceptional items of £27.0m and amortisation of acquired intangible assets of £25.6m.

<sup>3</sup> Stated net of the effect of hedging instruments.

<sup>4</sup> Re-presented to re-classify the FY2018 provision relating to the Mersey Gateway project as an exceptional item.

<sup>5</sup> Prior year earnings per share has been re-stated by an adjustment factor of 1.0176 to reflect the rights issue in December 2018.

**Decisive actions taken**

- £250m rights issue in December 2018 to strengthen the balance sheet
- New management team appointed
- Simplification of Group structure around four market-leading businesses: Regional Building, Highways, Utilities and Infrastructure
- Re-shaping of the Group to reduce net debt:
  - Sale of Kier Living progressing well
  - Capital investment in Property to be reduced to £100m by 30 June 2020 (2019: £184m); exploring options to accelerate the release of capital from the business
  - Exit of Environmental Services and Facilities Management businesses underway
- Accelerated Future Proofing Kier (FPK) programme
  - Headcount reduction of c.1,200 by FY2020; c.650 headcount reduction in FY2019
  - Annual cost savings of c.£55m from FY2021
- As announced on 17 June 2019, dividend suspended for FY2019 and FY2020

**Exceptional Items (including amortisation of acquired intangible assets)**

- Charges of £341m, principally relating to preparing businesses for sale, restructuring and significant loss-making contracts

Continued.....

Issued by the Kier communications department, Tempsford Hall, Sandy, Bedfordshire SG19 2BD  
 Tel: 01767 355000 Email: info@kier.co.uk

- £275m of non-cash charges
- £34m of cash outflow in FY2019, reflected in 30 June 2019 net debt position
- £32m of cash outflows over the next seven years, principally relating to FPK costs and the exit from the Environmental Services business.

	Credit/(charge) 2019 (£m)	Cash (outflow)/inflow 2019 (£m)	Cash (outflow)/inflow future periods (£m)
Restructuring charges, including FPK	(56)	(45)	(11)
Costs incurred in disposal of operations or preparation for business divestment or closure	(172)	22	(29)
Costs associated with previous acquisitions	(29)	(11)	(2)
Exceptional contract losses	(50)	-	-
Other	(9)	-	10
Total exceptional items	(316)	(34)	(32)
Amortisation of contract rights	(25)	-	-
Total	(341)	(34)	(32)

#### Net debt in line with expectations

- Net debt at 30 June 2019 of £167m (2018: £186m)
- Average month-end net debt of £422m (2018: £375m)

#### Core businesses resilient in challenging year

- Revenues of £4.5bn (2018: £4.5bn)
- Order book of £9.4bn (2018: £9.8bn)<sup>1</sup>
- Good performance by Buildings; volumes up 6%
- In Infrastructure Services, Highways and Utilities experiencing reduced volumes.

- ENDS -

There will be a presentation for analysts and investors at 9.00 a.m. British Summer Time on 19 September 2019 at etc. venues, 200 Aldersgate London EC1A 4HD. A live webcast will be available at <https://www.investis-live.com/kier/5d51639a741a5211003943c9/nbsa> which will be recorded and made available later in the day on the Kier website, [www.kier.co.uk](http://www.kier.co.uk).

#### Enquiries:

Cynthia Alers, Head of Investor Relations +44 (0)203 280 5960  
Kier press office +44 (0)1767 355 096  
Richard Mountain/Nick Hasell, FTI Consulting +44 (0)203 727 1340

This announcement contains inside information for the purposes of Market Abuse Regulation (Regulation (EU) No. 596/2014). The person responsible for making this announcement on behalf of the Company is Hugh Raven, General Counsel and Company Secretary.

<sup>1</sup> Excluding HS2: order book £7.9bn (2018: £8.5bn).

## Full-year overview

The Group's revenue was £4.5bn (2018: £4.5bn) and operating profit decreased by 34% to £124m (2018: £187m). The Group's order book at 30 June 2019 was £9.4bn (2018: £9.8bn)<sup>1</sup>, with over £1.1bn of new awards won in the second-half of the year. Net debt at 30 June 2019 was £167m (2018: £186m) and average month-end net debt was £422m (2018: £375m).

In June 2019, we announced the results of a strategic review, which identified the need to further simplify the Group, increase the focus on cash generation and reduce net debt. We are making good progress against our strategic priorities. In part, as a result of this, the Group has reported £341m of charges, including in respect of the costs of preparing to exit or sell businesses, restructuring costs and significant contract losses. The net cash outflow associated with these charges in FY2019 was c.£34m, with an aggregate cash outflow of c.£32m forecast in future years.

Regional Building performed well, winning new projects totalling c.£1.9bn. Highways experienced overall volume pressures and a change in the mix of work from maintenance to lower margin capital expenditure projects. Utilities also experienced volume pressures, principally as a result of delays in broadband installations in the telecommunications sector. A reduction in housing completions in Living and delays to several transactions in Property affected the results of Developments & Housing.

## Rights issue

During 2018, the banking sector indicated its intention to reduce its exposure to the construction and related sectors and the focus on service providers' balance sheets and the pressure to improve the Group's supply-chain payment terms each increased. As a result, the Group undertook a rights issue in December 2018, which raised net proceeds of £250m, a significant proportion of which was used to accelerate payments to the supply-chain, as a result of which the Group reported average payment days to its supply-chain partners of 41 for H2 FY2019 (H1: FY2019: 57 days).

## Dividend

The interim dividend of 4.9p was paid on 17 May 2019. As previously announced, the Company has suspended the final dividend for FY2019 and the dividend for FY2020. The Board will continue to review the Company's dividend policy for future financial periods.

## Strategic review

In April 2019, we began a strategic review of the Group, which concluded that the Group needed to further simplify its structure, better allocate its capital resources, identify additional steps to improve cash generation and reduce net debt.

Kier has a number of high-quality, market-leading businesses, in particular Regional Building, Highways, Utilities and Infrastructure, which support the sustainability of our business model. These businesses operate under long-term frameworks which require strong client relationships and sector expertise. Once appointed to a framework, we have the opportunity to tender for a range of projects over a number of years, which provides good visibility of future work, reduces risk and leverages our key operational strengths. These businesses, which are inherently cash generative, will be the future core of the Group.

Our Housing Maintenance business complements our Regional Building business. Housing Maintenance will continue to seek opportunities for planned maintenance work, including fire safety risk assessment work, under frameworks for housing associations and local authorities. The International business, which principally operates in Dubai, continues to tender selectively for new work.

We also concluded that several of our businesses were not compatible with the Group's working capital objectives:

- Residential: Kier Living is a strong business but has limited operational synergies with other parts of the Group and would require significant ongoing funding to deliver future growth. In June 2019, we announced that we would be selling this business; the sale process is progressing well;
- Property: similarly, the investment requirements of the Property business are not considered to be compatible with the Group's capital requirements. As a result, we expect to have reduced the capital invested in the business to £100m by 30 June 2020 (2019: £184m). We are also exploring options to accelerate the release of capital from the business; and
- Environmental Services and Facilities Management: these businesses also have limited operational synergies with the Group's core businesses and the Group will seek to exit them in due course.

<sup>1</sup> Excluding HS2: order book £7.9bn (2018: £8.5bn).

### ***Future Proofing Kier***

In 2018, we launched the Future Proofing Kier programme ('FPK') with the aim of reducing costs, simplifying the Group and creating operational efficiencies. Approximately 650 people left the Group in FY2019, the costs for which are included in the exceptional charges taken in the year, with c.550 expected to leave in FY2020. The Group expects to deliver annual cost savings of c.£55m from FY2021.

### ***Performance Excellence***

Our Performance Excellence programme will be launched later this year, comprising four principal elements which will each focus on the basics required for an efficient and effective business:

- **People** – focusing on talent management, culture and the development of our people
- **Process** – establishing an operational framework, an assurance process and consistent reporting
- **Projects** – covering each stage of the contracting process, from tendering to completion of a project
- **Cash** – introducing disciplines to manage cash more rigorously across the Group.

### ***Board changes***

Haydn Mursell stood down as Chief Executive in January 2019, with Andrew Davies joining as Chief Executive in April 2019. Bev Dew will step down as Group Finance Director by 30 September 2019 and Simon Kesterton will then assume the role of Chief Financial Officer. As announced today, Phil Cox will retire as Chairman and step down from the Board once a successor has been appointed. The search process for Mr. Cox's successor as Chairman has commenced.

### ***Safety, health and environment***

The safety and wellbeing of our employees and suppliers remain of paramount importance. The Group's overall SHE performance has improved year-on-year, continuing the trend of the last few years, although the rate of improvement has slowed recently. It is essential that safety, health and wellbeing remain at the forefront of our operations. We remain committed to our campaign to raise awareness of doing the safety basics well.

### ***Our people***

The success of the Group depends on our people. The skills and commitment of our employees and supply-chain are fundamental to our business. We are grateful for the hard work and dedication of our employees and the supply chain in a very challenging year both for them and the Group. It is our ambition to remain an employer of choice, attracting and retaining the best talent in our industry. Kier is a member of the 5% Club, aiming to increase the number of its apprentices, graduates, sponsored students and employees in further education. We continue to sponsor several programmes to train the next generation and fill the significant skills gap in our industry.

### ***Communities***

We are proud of our role in delivering economic and social infrastructure that benefits the UK. In 2018, Kier was the first construction company in the UK to achieve the Social Value Mark of Quality for businesses that are committed to achieving positive social impact through their work. As a regionally focused business, we seek to contribute to local communities through local employment, procurement and SME spend.

### ***Outlook***

Kier experienced a difficult year, resulting in a disappointing financial performance. However, we are building firm foundations for the future: we have a new management team in place, we have defined our strategic priorities and we are taking decisive actions to deliver them. We have a strong order book, reflecting the strength of the underlying business, the quality of our people and the Group's capabilities. The sale of Kier Living is progressing well and we are exploring options to accelerate the release of capital from our Property business. The re-shaping of the Group is designed to reduce its overall indebtedness during FY2020 and to restore Kier to robust financial health.

## Divisional Reviews

### Buildings

#### *Regional Building, Major Projects – Building, Facilities Management, International*

£m	Year ended 30 June 2019	Year ended 30 June 2018	Change
Revenue <sup>1</sup>	1,883	1,778	+6%
Operating profit <sup>2</sup>	62	55	+13%
Operating margin <sup>2</sup>	3.3%	3.1%	
Order book (secure and probable)	£4.1bn	£3.7bn	

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

<sup>2</sup> Operating profit is stated before exceptional items and amortisation of acquired intangible assets.

The Buildings business performed well, with revenue increasing 6% to £1,883m (2018: £1,778m). Profit before exceptionals increased by 13% to £62m (2018: £55m), with operating margins increasing to 3.3% (2018: 3.1%). The order book at 30 June 2019 was £4.1bn and was 91% secured and probable for FY2020. Approximately 65% of Buildings' work is on long-term frameworks.

#### **Regional Building**

Regional Building maintained its market leading position with over £1.4bn of contract awards in FY2019 (2018: £1.6bn). The business covers all regions of the UK, delivering essential buildings such as schools, hospitals, office buildings and amenities centres for local authorities, councils and the private sector.

During FY2019, the business re-secured positions on some of the largest UK public sector construction frameworks, including the £5bn Southern Construction Framework, the South East and Mid Wales Collaborative Construction Framework, the North Wales Construction Framework, the Suffolk County Council Framework, the London Construction Programme and the Hampshire Intermediate Construction Framework. In addition, Kier continues to be the delivery partner on the second generation of the Scape Minor Works Framework and, in July 2019, completed its 1,000<sup>th</sup> project under the framework. The Group has recently been awarded a place on the North West Construction Hub's Medium Value Framework, complementing the place awarded in January 2019 on the North West Construction Hub's High Value framework.

#### **Major Projects - Buildings**

Major Projects - Buildings completed a number of projects during the year and construction work began for Argent on a flagship new corporate headquarters at King's Cross, London, at RAF Lakenheath and on the £250m Wellingborough prison. The business continues to focus principally on the defence, science, commercial, custodial and aviation sectors.

Discussions are continuing with the client on the Broadmoor Hospital redevelopment project about the Group's entitlement to the additional costs associated with the project. In light of the uncertainty of the recovery of these costs, an exceptional charge of £43.5m relating to the project has been included in the financial statements.

#### **International**

The International business principally operates in Dubai. The business traded in line with expectations, stabilising its performance following the introduction of more rigorous bidding disciplines.

#### **Facilities Management**

Facilities Management traded below expectations and therefore has been focusing on reducing its overheads and managing and exiting a number of under-performing contracts. As announced in June 2019, the Group will seek to exit this business in due course. As a result, the Group has included an exceptional charge of £18.0m in the financial statements.

#### **Buildings outlook**

The broader macro-environment, including Brexit, is expected to create market uncertainty which may, in turn, lead to delays in decision-making by clients and therefore the business does not expect its revenue to increase in FY2020.

The International business will continue to tender selectively for new work. The Group will continue to prepare to exit the Facilities Management business.

## Infrastructure Services

Highways, Utilities, Infrastructure

£m	Year ended 30 June 2019	Year ended 30 June 2018 <sup>3</sup>	Change
Revenue <sup>1</sup>	1,671	1,733	-4%
Operating profit <sup>2</sup>	56	95	-41%
Operating margin <sup>2</sup>	3.4%	5.5%	
Order book (secure and probable)	£5.1bn	£5.5bn	

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

<sup>2</sup> Operating profit is stated before exceptional items and amortisation of acquired intangible assets.

<sup>3</sup> Re-presented to re-classify the FY2018 provision relating to the Mersey Gateway project as an exceptional item.

Revenue in Infrastructure Services decreased by 4% to £1,671m (2018: £1,733m). Profit before exceptionals decreased by 41% to £56m (2018: £95m) and operating margins decreased to 3.4% (2018: 5.5%). This reflected:

- the re-presentation of the FY2018 results to reflect a £27m exceptional charge relating to the Mersey Gateway project, which is substantially higher than the £6m exceptional charge relating to this project in FY2019;
- £9.5m profit from the Group's share in KHSA Limited (the Australian Highways business) in FY2018 as compared to £5.9m in FY2019, reflecting its disposal in the year;
- the re-presentation of Mining, which contributed a £4.4m loss in FY2019 (2018: nil); and
- reduced profitability in Infrastructure and from the Group's fleet operations of c.£20m compared to FY2018, driven by contract provisions in Infrastructure and reduced income from the fleet operations.

As announced in June 2019, profitability in Highways and Utilities was adversely affected by lower than anticipated volumes.

As at 30 June 2019, the order book on a like-for-like basis was £5.1bn (2018: £5.5bn), adjusting for the disposal of the Group's share in KHSA Limited to Downer Group in December 2018. The order book is 92% secured and probable for 2020, with 80% of work on long-term frameworks. The order books for Highways and Utilities are 100% and 80% secured and probable, respectively, for FY2020. The order book includes £1.5bn for HS2.

### Highways

Highways reported lower overall volumes in FY2019 and a change in the mix of work from maintenance to lower margin capital expenditure projects.

Despite lower maintenance volumes, Highways maintained its position as a sector leader, working with Highways England and a number of district and county councils. Over the year, the Highways business was granted two three-year extensions to 2021 and 2022, respectively, on Highways England Areas 3 and 9 and a six-month extension on Areas 6 and 8, which concludes in October 2019. Work on the Smart Motorways programme continued, with the completion of works on the M6 J16 – 19 alongside ongoing works on the M6 J13 - 15, M23 and M20 projects, each of which will complete in FY2020. The business has continued to work on local authority contracts, including for Transport for London, Shropshire, Suffolk, Surrey and Northamptonshire. In November 2018, we were appointed as one of the three providers to deliver schemes on the North of England £2bn Regional Delivery Partnership framework and have begun work on two schemes in Blackpool and Liverpool with a combined value of c.£230m.

### Utilities

The Utilities business, which focuses on the water, telecommunication and energy sectors, experienced lower trading volumes in FY2019, principally as a result of delays in broadband installations in the telecommunications business.

In the water sector, transition to the 2020-2025 AMP7 regulatory period is underway and we are engaging with both new and existing clients on their requirements through their bid processes. Our strong position in the water sector resulted in a new five-year award from Severn Trent, covering civil and structural engineering.

The Group has identified several opportunities in the telecommunications market for super-fast broadband and 5G construction, although delays have been experienced in beginning work on new projects. New alternative fibre providers are entering the market and they are expected to provide opportunities for the business in the future. A £17.5m exceptional charge has been taken in relation to a provision against WIP acquired with McNicholas net of a £4m reduction in deferred consideration.

In the power sector, the Group continued to provide services to UK Power Networks as part of the ED1SON Alliance and was appointed to areas within the East and West Midlands frameworks and re-appointed to the Western Power Distribution South West framework.

### **Infrastructure**

In the energy sector, work completed on the earthworks contract at Hinkley Point C and new work totalling £43m was awarded from the three-year £100m civils framework on which a place was awarded during FY2019.

In transport, the Luton DART mass passenger transit project is progressing well. Work on HS2 is in the early stage of on-site investigations. The regional civils business continues to make good progress with key nationwide clients, including National Grid, Canal and River Trust and the Environment Agency. During FY2019, we were awarded a position on the four-year Environment Agency Collaborative Delivery framework in the North-West of England and commenced work on the A13 £70m road-widening contract. In July 2019, we undertook emergency works on the Whaley Bridge dam.

### **Infrastructure Services outlook**

In Highways, the change in the mix of work from maintenance to lower margin capital expenditure projects and uncertainty over volumes are expected to continue in FY2020. In addition, the six-month extension on Highways England Areas 6 and 8 concludes in October 2019 and the works on the M6 J13 – 15, M23 and M20 projects will each complete in FY2020.

In Utilities, new regulatory periods are creating opportunities in the water, power and gas sectors. In the telecommunications sector, although significant sums are expected to be spent on the construction and installation of ultrafast broadband across the UK over the forthcoming years, the timing of contract awards for this work remains uncertain.

In Infrastructure, although there is uncertainty in relation to the HS2 project, work on the project continues. A postponement or cancellation of the project is not expected to have a material impact on the Group's financial performance.

## **Developments & Housing**

### *Residential, Property, Housing Maintenance, Environmental Services*

<b>£m unless indicated</b>	<b>Year ended 30 June 2019</b>	<b>Year ended 30 June 2018</b>	<b>Change</b>
Revenue <sup>1</sup>	940	1,002	-6%
Operating profit <sup>2</sup>	56	72	-22%
<b>Residential (Kier Living)</b>			
Completions	1,926	2,042	-6%
Ave selling price	£194,000	£183,000	+6%
NAV (excl debt)	£173.5m	£180.0m	-4%
ROCE	14%	15%	-1%
<b>Property</b>			
No. of Transactions	24	32	-25%
ROCE	18%	27%	-9%

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

<sup>2</sup> Operating profit is stated before exceptional items and amortisation of acquired intangible assets.

Revenues in Developments & Housing decreased by 6% to £940m (2018: £1,002m), with profit before exceptionals of £56m (2018: £72m). As a result of the decisions to sell Residential and to seek to exit Environmental Services, the Group has included exceptional charges totalling £124.6m in the financial statements.

### **Residential**

Completed sales transactions decreased by 6% in FY2019 to 1926 (2018: 2042). The average selling price per property increased to £194,000 (2018: 183,000). Return on capital employed (ROCE) decreased to 14% (2018: 15%). Net asset value, excluding debt, decreased by 4% to £173.5m (2018: £180.0m). The landbank at 30 June 2019 comprised 3,938 plots (2018: 3,897).

In June 2019, the Group announced that it intended to sell Residential (branded Kier Living). The Kier Living sale excludes certain land which was valued on the Group's balance sheet at c.£60m. The Group has no immediate intention to develop this land and, therefore, the Group has recorded an impairment charge of £50m in the financial statements. The Residential business operates a number of joint ventures ("JVs"), including with Homes England. It is expected that any sale of the business will also include Kier's interests in these JVs, together with its share of the JVs' debt.

### ***Property***

Profit before exceptionals decreased to £29.7m (2018: £34.0m), reflecting the reduced capital invested in this business. The level of capital allocated to the Property business is expected to have been reduced to £100m by 30 June 2020 (2019: £184m).

As part of the Arena Central development in Birmingham, the pre-let and forward funded 3 Arena Central is proceeding well. The first phase of private residential and affordable housing in the Watford Health Campus completed in September 2019.

### ***Housing Maintenance***

Housing Maintenance provides planned maintenance, capital works, fire safety risk assessments and repairs services for housing associations, local authorities and private rented sector clients. In April 2019, a new five-year £8.6m contract was awarded by Muir Housing Association to deliver a comprehensive repairs service. Whilst certain local authorities have taken maintenance in-house, which affected the business' volumes in FY2019, there has been an increased demand for fire safety risk assessment work. We were awarded a place on the four-year £50m Hyde Fire Safety framework, a three-year £8m contract with Gentoo and a £5.7m contract by the London Borough of Hammersmith & Fulham, in each case to deliver fire safety repairs.

### ***Environmental Services***

In June 2019, we announced that we would seek to exit this business in due course. We agreed an early termination of the Cheshire West and Chester (CWaC) contract, with phased settlement payments over 2020 to 2026. Plans are on course to close the remainder of the business during FY2020 and, therefore, the Group has taken an exceptional charge of £26.8m.

### ***Developments & Housing outlook***

The sale of Kier Living is progressing well. The Property business will re-focus principally on mixed-use urban re-generation schemes, operating within a reduced level of investment. The Group is exploring options to accelerate the release of capital from our Property business.

The Housing Maintenance business, which is complementary to the Regional Building business, will focus in particular on fire risk safety assessment services. The Group will continue to take steps to close the Environmental Services business during FY2020.



## Financial Review

### Strengthening the Group's balance sheet

During 2018, the banking sector indicated its intention to reduce its exposure to construction and related sectors, the focus on service providers' balance sheets increased and there was an increasing pressure to improve the Group's supply-chain payment terms. As a result, the Group undertook a rights issue in December 2018, which raised net proceeds of £250m. The Group reported average payment days to its supply-chain partners of 41 for the second half of FY2019, a significant reduction from 57 days for the first half of the year.

### Alternative performance measures

The Group changed the presentation of its financial statements for FY2019 to profit before exceptional items. In prior years, the Group has reported underlying profit. The principal reason for the change is to improve the transparency and clarity of the Group's financial performance.

The Group reports average month-end net debt as a key performance measure, using a 13-month, period-end basis, beginning with June at the end of the immediately preceding financial year, with each quarter in the financial year being divided into three period ends of 4, 4 and 5 weeks. This is not a statutory requirement.

### Segmental reporting update

For FY2019, the Group reported by reference to three market segments: Regional Buildings, Infrastructure Services (including Highways and Utilities) and Developments & Housing. For FY2018, the Group reported by reference to four operating divisions: Property, Residential, Construction and Services.

Following the announcement of the conclusions of the strategic review in June 2019, the Group will be focusing on four core businesses: Regional Building, Highways, Utilities and Infrastructure. For FY2020, the Group's segmental reporting will relate to these businesses, together with the Group's Property and Residential businesses as a non-core segment.

### Financial performance before exceptional items

#### **Revenue**

The Group's revenues, including its share of joint ventures, was maintained at £4.5bn (2018: £4.5bn). The Group's statutory revenue of £4.1bn (2018: £4.2bn) was 2% lower than in FY2018.

#### **Operating profit**

Buildings reported operating profit of £62m (2018: £55m), which represented an operating margin of 3.3% (2018: 3.1%). Infrastructure Services reported an operating profit of £56m (2018: £95m), which represented an operating margin of 3.4% (2018: 5.5%). Developments & Housing reported an operating profit of £56m (2018: £72m), which represented an operating margin of 6% (2018: 7.2%).

Group central costs of £50.2m (2018: £35.1m) increased because the cost savings associated with the Group's investment in its back-of-office functions were realised later in FY2019 or after 30 June 2019. The Group's profit before exceptional items of £124.1m was materially lower than in FY2018 (£187m).

#### **Order book**

The Group's order book at 30 June 2019 was c.£9.4bn (2018: £9.8bn). Excluding HS2, the order book was £7.9bn (2018: £8.5bn). The Group's share of the order book of KHSA Limited (Kier's Australian Highways business), which was disposed of in December 2018, was c.£0.4bn in prior year. The Buildings order book of £4.1bn reflects the number of positions on frameworks in Regional Building and the decline in the Infrastructure Services' orderbook to £5.1bn (2018: £5.5bn) reflects the volume pressures experienced within this market segment in FY2019.

#### **Net finance costs**

Net finance costs before exceptional items were £26.5m (2018: £23.1m) including £21.5m in respect of the Group's finance facilities, which increased by 19%, principally as a result of the increase in the Group's average month-end net debt from £375m to £422m in FY2019. Other interest charges included £2.3m in respect of charges relating to the unwinding of discounted onerous provisions and deferred consideration.

#### **Earnings per share**

Earnings per share before exceptional items ("EPS") from continuing operations were 58.2p (FY18: 136.8p). The weighted average number of shares in issue for the period of 132.2m reflects the shares issued in connection with the rights issue in December 2018. EPS for prior periods has been restated to reflect the application of the adjustment factor of 1.0176, being the bonus element of the new shares issued in connection with the rights issue.

## **Exceptional charges (including amortisation of acquired intangible assets)**

In FY2019, the Group has reported charges of £341m:

### ***Amortisation of acquired intangible assets*** (£24.8m)

Comprises the amortisation of acquired contract rights primarily relating to the acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017. These charges have no future cash impact.

### ***Costs relating to the preparation of businesses for sale*** (£172m)

- The total impairment associated with the Group's decision to sell or exit Residential, Property, Environmental Services and Facilities Management is £48m;
- The Group has reviewed the carrying value of certain sites not to be included in the sale of Residential and recognised a non-cash charge of £50m;
- Previously capitalised software assets associated with these businesses to be exited totalled £10m and have been impaired in full;
- The Group has agreed to exit a series of contracts in Facilities Management at a cost of £22m and, within Environmental Services, the Cheshire West and Chester (CWaC) contract, in relation to which a provision of £27m has been made representing the value of future payments to be paid to the client from FY2020 to FY2026; and
- A cost of £6.4m has been incurred in relation to the disposal of certain businesses and a fair value charge of £8.4m has also been recognised. The businesses sold in the year generated a cash inflow of £28m and included the Group's share of its Australian Highways joint venture, KHS Limited, to Downer Group, its pensions administration business and its joint venture with Oldham Council, each of which was acquired in 2015 with the Mouchel group.

### ***Restructuring costs*** (£56.4m)

The Group has incurred restructuring costs in the year totalling £56.4m (2018: nil). This total includes £20m in respect of employee exit costs associated with FPK. In addition, as result of a decrease in the Group's volumes in certain businesses (including Highways and Utilities), c.£19m of charges were incurred in reducing headcount in these businesses. Fees and internal costs of c.£18m have been incurred in undertaking and implementing the conclusions of the strategic review announced in June 2019 and the cost reductions described above. Of this total, c.£26m was committed but accrued at 30 June 2019 date and will represent a cash outflow in FY2020.

### ***Costs associated with previous acquisitions*** (£29.3m)

The Group has recognised a £29.3m charge in FY2019 in respect of the 2017 acquisition of McNicholas, £21.5m of which represents the impairment of assets in existence at 30 June 2019 which have now been impaired, with a further £11.8m of costs of restructuring and integration being incurred in FY2019. The Group has released £4m of contingent consideration which is not payable. £1m of these costs are accrued at 30 June 2019 and will be expended in FY2020.

### ***Exceptional contract losses*** (£49.9m)

The Group has recognised a £43.5m exceptional provision relating to the Broadmoor Hospital Redevelopment in respect of future recoveries from the client and other third parties. The Group has also incurred charges of £6.4m in relation to the Mersey Gateway project. The cashflows were fully reflected in FY2019, with no future cash outflows associated with these items.

### ***Other*** (£8.7m)

The Group incurred a non-cash charge of £16m in FY2019 following a review of certain receivable balances in its procurement function.

Following a court ruling relating to the Guaranteed Minimum Pension in October 2018, the Group's actuaries recommended the recognition of a £6.1m equalisation charge in respect of the Group's final salary pension schemes. In addition, the Group has undertaken a pension increase exchange exercise which has generated a gain of £16.1m. Against this, fees of £1.5m were incurred. Any future cash impact in respect of these items will be incorporated within the future deficit recovery contributions.

## **Balance sheet**

### ***Net assets***

The Group has net assets of £520m at 30 June 2019 (2018: £601m).

### ***Net debt***

The Group's net debt at 30 June 2019 was £167m (2018: £186m). The Group's average month-end net debt increased to £422m (2018: £375m). Net debt was at its highest between September 2018 and November 2018, at an average of c.£560m, but reduced following the rights issue in December 2018 and the average in the second half of the year was c.£376m. The suspension of the dividend, disposals and savings achieved via FPK have further made positive contributions to the Group's net debt position.

The Group places significant value on the relationship with its supply-chain and, during FY2019, reduced its average payment days from 57 days to 41 days.

### **Working capital**

Working capital movements resulted in an outflow for the year of £182m (2018: outflow of £17m). We anticipate that the re-shaped Group, following the implementation of the strategic actions, will have an improved working capital profile in the medium term.

### **Goodwill**

The Group held intangible assets of £767m (2018: £862m) at 30 June 2019, of which goodwill represented £536.7m (2018: £560m). Disposals of businesses during FY2019 resulted in a reduction in goodwill of £10.7m.

The Group has reviewed goodwill as at 30 June 2019, assuming a pre-tax weighted average cost of capital of 10.1%, which is higher than in previous years and reflects an increasing risk weighting. The Group has impaired £8m of goodwill in respect of Developments & Housing, principally reflecting the impact of the Group's intention to dispose of Residential.

### **Retirement benefit obligation**

Kier operates a number of defined benefit pension schemes. At the year end, the reported surplus, which is the difference between the aggregate value of the scheme's assets and the present value of their future liabilities, was £19.5m (2018: £7.9m) before accounting for deferred tax.

### **Accounting policies**

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). Two new accounting standards were adopted by Kier during the year ended 30 June 2019; IFRS 15 ('Revenue from Contracts with Customers') and IFRS 9 ('Financial Instruments'). Other than these two new standards, there have been no significant changes to the Group's accounting policies during FY2019.

The Group is currently concluding its project to assess the impact of IFRS 16 ('Leases'), which the Group will adopt in FY2020. The principal 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.

IFRS 16 introduces a new category of non-current assets for 'right of use assets' associated with leases. At the date of initial application of IFRS 16, the carrying value of the Group's right of use assets is expected to be less than the additional lease borrowings that will be coming on to the balance sheet. The Group is therefore anticipating an adjustment to reserves on transition.

### **Impact of IFRS 15**

The Group has elected to use the cumulative catch-up method of transition, wherein the results of FY2018 are not restated but the initial impact of adopting the standard is taken to opening reserves. The Group has made an adjustment to opening reserves of £60.6m, net of tax, as a result of the transition to IFRS 15. Whilst the replacement of IAS 11 and IAS 18 by IFRS 15 can impact on the timing of revenue and profit recognition on individual contracts in a particular accounting period, it does not change the overall revenue, profit or cash generated over the life of the contract. The areas where the new standard gave rise to a transitional adjustment on adoption were as follows:

- The change from revenue recognition based on external progress valuation to an input measure of progress, to better reflect the pattern of transfer of control to the customer (£28.1m);
- Following the withdrawal of IAS 11, certain claims receivable from non-customer third parties now fall under the IAS 37 and require recovery to be "virtually certain" before an asset may be recognised (£26.0m);
- Disaggregation of performance criteria relating to a single IT service contract (£3.4m);
- Derecognition of certain variable revenue items in determining forecast project outcome on a contract in the Middle East (£9.7m)
- New guidance on which pre-contract costs can be capitalised (£5.8m); and
- A deferred tax credit has been recognised in respect of the above adjustments (-£12.4m).

Due to the above timing differences on the reporting of revenue and profits arising from the above adjustments, the Group's profit reported under IFRS 15 for the FY2019 is £20.6m higher, net of tax, than it would have been under previous accounting standards.

### **Impact of IFRS 9**

The adoption of IFRS 9 has had no material impact on the Group's financial statements.

The Group has implemented an expected credit loss impairment model with respect to trade receivables and contract assets using the simplified approach. Trade receivables and contract assets have been grouped on the basis of their shared risk characteristics and a provision matrix has been developed and applied to these balances to generate the loss allowance. The majority of the Group's receivables are with utility companies, transport agencies, government agencies and local authorities and the incidence of credit loss is low. There has therefore been no material adjustment as a result of transition from the previous bad debt provision under IAS 39 to the loss allowance under IFRS 9.

As permitted by IFRS 9, the Group has chosen to delay the adoption of the standard for hedge accounting and therefore the Group's hedge accounting continues to be performed in accordance with IAS 39 for FY2019.

### **FRC Corporate Reporting Review**

On 30 July 2018, the Company received a letter from the FRC's Corporate Reporting Review Team (CRRT) raising a number of points on the Company's 2017 Annual Report. Details regarding the CRRT's enquiry were disclosed on page 78 of the 2018 Annual Report.

During the year, the Company has continued to engage with the FRC, principally in relation to: (i) the Company's accounting treatment of certain joint ventures; and (ii) the basis of revenue recognition of certain contract claims.

The CRRT has considered the accounting treatment of certain joint ventures in the Property and Residential businesses and, in particular, the effect of certain pre-emption rights which could enable Kier to take control in the event of a deadlock situation arising between Kier and its joint venture partners. The Company does not believe that these pre-emptive rights are substantive rights and, consequently, these investments have historically been accounted for as joint ventures under the equity accounting method and not consolidated into the Group's financial statements. However, the Company acknowledges that this is an area of significant accounting judgement and, in agreement with its joint venture partners, is amending the relevant agreements to remove these pre-emption rights.

The other principal point of discussion with the FRC was in respect of the basis of revenue recognition of certain contract claims.

Further details relating to the engagement with the CRRT and the impact on the Group's balance sheet and income statement, had the relevant joint ventures been consolidated at 30 June 2017, 30 June 2018 and 30 June 2019 respectively, will be disclosed in note 1 to the 2019 financial statements ('Significant accounting judgements').

### **Treasury facilities**

#### **Bank finance**

The Group has committed debt facilities of £922m with a further £20m of uncommitted overdrafts. Bank debt will mature in June 2022 and US private placement (USPP) notes mature between 2019 and 2024. The Group has repaid debt of £12m during the year. Debts of £25m and \$8m are due to be repaid in December 2019.

#### **Supply chain finance**

The Group offers its supply chain in the Construction and the Residential business the opportunity to participate in the Kier Early Payment Scheme (KEPS). The balance owed on this facility is included in trade creditors. The balance at 30 June 2019 was £170m (2018: £185m). The Company plans to reduce further its use of KEPS during FY2020.

#### **Leasing**

At 30 June 2019, the Group had £3.1m (2018: £7.1m) of finance lease.

### **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 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 the Group's 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.

## Going concern

The directors continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

The Group announced the conclusions of its strategic review in June 2019, which set out the Group's plans to focus on its core businesses of Regional Building, Highways, Utilities and Infrastructure; to simplify the Group by selling or substantially exiting non-core activities, including Kier Living, Property, Facilities Management and Environmental Services; to restructure the Group by reducing headcount by c.1,200 and deliver annual cost savings of c.£55m from FY2021; and to embed a culture of performance excellence with a particular focus on cash generation to deliver a reduction in average month-end net debt.

As at 19 September 2019, the Group has received a number of offers for its Residential business and has taken cost reduction actions to realise significant annualised benefits. The results of these actions will result in reduced leverage and reduced costs over the next 12 months.

At 30 June 2019, the Group had £922m of unsecured committed facilities, £20m of uncommitted overdrafts and £195m of uncommitted supply chain financing facilities.

The directors have reviewed the Group's short-term cash flow forecasts to 31 December 2020 which are included in the Group's three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios. These included consideration of the risks to the Group relating to pension funding, working capital, supply chain finance, volume reductions, margin erosion, project specific risks, delivery of the cost reduction plans, delivery of the business disposal programme and the recoverability of work in progress and debtor balances. This stress-testing also considered a combination of the individual downside profit and cashflow scenarios.

The Board undertook this assessment in the context of macro-economic and political risks affecting the UK economy, including Brexit. Brexit has the potential to disrupt the Group's operations, particularly in relation to materials, people and the supply-chain. The Group has established a 'Brexit task force' and has in place business continuity plans to mitigate the risks associated with Brexit. The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered to be more insulated from macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability. However, in light of the current macro-economic and political risks affecting the UK economy, and other risks to business performance, the Board has also planned further mitigating actions which could be taken and are within its control to ensure that the Group remains in compliance with its debt facilities and covenant requirements in severe but plausible downside business scenarios over the forecast period.

As a result, the directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

- E N D S -

### Cautionary statement

This announcement does not constitute an offer of securities by the Company. Nothing in this announcement is intended to be, or intended to be construed as, a profit forecast or a guide as to the performance, financial or otherwise, of the Company or the Group whether in the current or any future financial year. This announcement may include statements that are, or may be deemed to be, "forward-looking statements". These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "anticipates", "expects", "intends", "plans", "target", "aim", "may", "will", "would", "could" or "should" or, in each case, their negative or other variations or comparable terminology. They may appear in a number of places throughout this announcement and include statements regarding the intentions, beliefs or current expectations of the directors, the Company or the Group concerning, amongst other things, the operating results, financial condition, prospects, growth, strategies and dividend policy of the Group or the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual operating results, financial condition, dividend policy or the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in this announcement. In addition, even if the operating results, financial condition and dividend policy of the Group, or the development of the industry in which it operates, are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, general economic and business conditions, industry trends, competition, changes in government and other regulation, changes in political and economic stability and changes in business strategy or development plans and other risks. You are advised to read the section headed "Principal risks and uncertainties" in the Company's Annual Report and Accounts for the year ended 30 June 2018 and the section of the Company's rights issue prospectus dated 30 November 2018 entitled "Risk factors" for a further discussion of the factors that could affect the Group's future performance and the industry in which it operates. Other than in accordance with its legal or regulatory obligations, the Company does not accept any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

# Consolidated income statement

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

For the year ended 30 June 2019

		2019			2018		
	Notes	Before exceptional items £m	Exceptional items (note 3) <sup>1</sup> £m	Total £m	Before exceptional items <sup>3</sup> £m	Exceptional items (note 3) <sup>1, 2</sup> £m	Total £m
<b>Continuing operations</b>							
<b>Revenue</b>							
Group and share of joint ventures	2	4,494.4	(15.0)	4,479.4	4,512.8	-	4,512.8
Less share of joint ventures	2	(357.7)	-	(357.7)	(273.2)	-	(273.2)
<b>Group revenue</b>		<b>4,136.7</b>	<b>(15.0)</b>	<b>4,121.7</b>	<b>4,239.6</b>	<b>-</b>	<b>4,239.6</b>
Cost of sales		(3,753.5)	(111.2)	(3,864.7)	(3,810.7)	(27.0)	(3,837.7)
<b>Gross profit/(loss)</b>		<b>383.2</b>	<b>(126.2)</b>	<b>257.0</b>	<b>428.9</b>	<b>(27.0)</b>	<b>401.9</b>
Administrative expenses		(289.8)	(214.2)	(504.0)	(288.1)	(25.6)	(313.7)
Share of post-tax results of joint ventures		30.7	-	30.7	42.7	-	42.7
(Loss)/profit on disposal of joint ventures and subsidiaries		-	(0.4)	(0.4)	3.5	-	3.5
<b>Profit/(loss) from operations</b>	2	<b>124.1</b>	<b>(340.8)</b>	<b>(216.7)</b>	<b>187.0</b>	<b>(52.6)</b>	<b>134.4</b>
Finance income		0.2	-	0.2	0.9	-	0.9
Finance cost		(26.7)	(1.7)	(28.4)	(24.0)	(5.1)	(29.1)
<b>Profit/(loss) before tax</b>	2	<b>97.6</b>	<b>(342.5)</b>	<b>(244.9)</b>	<b>163.9</b>	<b>(57.7)</b>	<b>106.2</b>
Taxation	5	(20.2)	55.9	35.7	(28.4)	10.7	(17.7)
<b>Profit/(loss) for the year from continuing operations</b>		<b>77.4</b>	<b>(286.6)</b>	<b>(209.2)</b>	<b>135.5</b>	<b>(47.0)</b>	<b>88.5</b>
<b>Discontinued operations</b>							
Loss for the year from discontinued operations (attributable to equity holders of the parent)		-	-	-	(1.0)	-	(1.0)
<b>Profit/(loss) for the year</b>		<b>77.4</b>	<b>(286.6)</b>	<b>(209.2)</b>	<b>134.5</b>	<b>(47.0)</b>	<b>87.5</b>
<b>Attributable to:</b>							
Owners of the parent		77.0	(286.6)	(209.6)	134.3	(47.0)	87.3
Non-controlling interests		0.4	-	0.4	0.2	-	0.2
		77.4	(286.6)	(209.2)	134.5	(47.0)	87.5
<b>Earnings per share<sup>2</sup></b>							
<b>Basic earnings/(loss) per share</b>							
From continuing operations	7	58.2p	(216.7)p	(158.5)p	136.8p	(47.5)p	89.3p
From discontinued operations	7	-	-	-	(1.0)p	-	(1.0)p
<b>Total</b>		<b>58.2p</b>	<b>(216.7)p</b>	<b>(158.5)p</b>	<b>135.8p</b>	<b>(47.5)p</b>	<b>88.3p</b>
<b>Diluted earnings/(loss) per share</b>							
From continuing operations	7	58.2p	(216.7)p	(158.5)p	135.3p	(47.0)p	88.3p
From discontinued operations	7	-	-	-	(1.0)p	-	(1.0)p
<b>Total</b>		<b>58.2p</b>	<b>(216.7)p</b>	<b>(158.5)p</b>	<b>134.3p</b>	<b>(47.0)p</b>	<b>87.3p</b>

<sup>1</sup> Reference to 'Exceptional items' includes exceptional items of £316.0m and amortisation of acquired intangible assets of £24.8m, see page 20 and Note 3.

<sup>2</sup> Earnings per share for the year to 30 June 2018 restated as a result of the rights issue which completed on 20 December 2018, see note 7 to the financial statements.

<sup>3</sup> The prior year comparative information has been re-presented to reflect the change in the Group's Alternative Performance Measure. This has had no impact on the statutory reported results for the year ended 30 June 2018.

# Consolidated statement of comprehensive income

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

For the year ended 30 June 2019

	Notes	2019 £m	2018 £m
<b>(Loss)/profit for the year</b>		<b>(209.2)</b>	87.5
<b>Items that may be reclassified subsequently to the income statement</b>			
Share of joint venture fair value movements on cash flow hedging instruments		0.2	0.4
Deferred tax charge on share of joint venture fair value movements on cash flow hedging instruments	5	-	(0.1)
Share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement		-	2.3
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement		-	(0.4)
Fair value gain/(loss) on cash flow hedging instruments		8.6	(3.4)
Fair value movements on cash flow hedging instruments recycled to the income statement		(4.3)	1.6
Deferred tax (charge)/credit on fair value movements on cash flow hedging instruments	5	(0.7)	0.3
Foreign exchange gains/(losses) on long-term funding of foreign operations		0.9	(0.2)
Foreign exchange translation differences		-	(0.3)
Foreign exchange movements recycled to the income statement		(0.7)	(0.9)
<b>Total items that may be reclassified subsequently to the income statement</b>		<b>4.0</b>	(0.7)
<b>Items that will not be reclassified to the income statement</b>			
Re-measurement of defined benefit liabilities	4	(22.9)	79.8
Deferred tax credit/(charge) on actuarial (losses)/gains on defined benefit liabilities	5	3.9	(13.6)
<b>Total items that will not be reclassified to the income statement</b>		<b>(19.0)</b>	66.2
<b>Other comprehensive (loss)/income for the year</b>		<b>(15.0)</b>	65.5
<b>Total comprehensive (loss)/income for the year</b>		<b>(224.2)</b>	153.0
<b>Attributable to:</b>			
Owners of the parent		(224.6)	152.8
Non-controlling interests – continuing operations		0.4	0.2
		(224.2)	153.0
<b>Total comprehensive (loss)/ income attributable to equity shareholders arises from:</b>			
Continuing operations		(224.6)	153.8
Discontinued operations		-	(1.0)
		(224.6)	152.8

# Consolidated statement of changes in equity

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

For the year ended 30 June 2019

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
<b>At 1 July 2017</b>	<b>1.0</b>	<b>434.8</b>	<b>2.7</b>	<b>(63.9)</b>	<b>(5.7)</b>	<b>4.7</b>	<b>134.8</b>	<b>508.4</b>	<b>3.0</b>	<b>511.4</b>
Profit for the year	-	-	-	87.3	-	-	-	87.3	0.2	87.5
Other comprehensive income/(loss)	-	-	-	66.2	0.7	(1.4)	-	65.5	-	65.5
Dividends paid	-	-	-	(66.1)	-	-	-	(66.1)	(1.5)	(67.6)
Issue of own shares	-	0.2	-	-	-	-	-	0.2	-	0.2
Share-based payments	-	-	-	5.4	-	-	-	5.4	-	5.4
Purchase of own shares	-	-	-	(1.3)	-	-	-	(1.3)	-	(1.3)
<b>At 30 June 2018</b>	<b>1.0</b>	<b>435.0</b>	<b>2.7</b>	<b>27.6</b>	<b>(5.0)</b>	<b>3.3</b>	<b>134.8</b>	<b>599.4</b>	<b>1.7</b>	<b>601.1</b>
Impact of adopting IFRS 15 (note 16)	-	-	-	(60.8)	-	0.2	-	(60.6)	-	(60.6)
<b>At 1 July 2018</b>	<b>1.0</b>	<b>435.0</b>	<b>2.7</b>	<b>(33.2)</b>	<b>(5.0)</b>	<b>3.5</b>	<b>134.8</b>	<b>538.8</b>	<b>1.7</b>	<b>540.5</b>
(Loss)/ profit for the year	-	-	-	(209.6)	-	-	-	(209.6)	0.4	(209.2)
Other comprehensive (loss)/income	-	-	-	(19.0)	3.8	0.2	-	(15.0)	-	(15.0)
Dividends paid	-	-	-	(52.6)	-	-	-	(52.6)	(1.6)	(54.2)
Issue of own shares	0.6	249.3	-	-	-	-	-	249.9	-	249.9
Share-based payments	-	-	-	7.2	-	-	-	7.2	-	7.2
Purchase of own shares	-	-	-	0.4	-	-	-	0.4	-	0.4
<b>At 30 June 2019</b>	<b>1.6</b>	<b>684.3</b>	<b>2.7</b>	<b>(306.8)</b>	<b>(1.2)</b>	<b>3.7</b>	<b>134.8</b>	<b>519.1</b>	<b>0.5</b>	<b>519.6</b>

The numbers in the table above are shown net of tax as applicable.

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. The new shares were fully subscribed on 20 December 2018, resulting in proceeds on issue of £249.9m, net of expenses of £13.7m, that were charged against the share premium account.



# Consolidated balance sheet

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

At 30 June 2019

	Notes	2019 £m	2018 <sup>1</sup> £m
<b>Non-current assets</b>			
Intangible assets	13	766.7	862.2
Property, plant and equipment		57.3	91.6
Investments in and loans to joint ventures		237.9	226.1
Capitalised mobilisation costs	16	3.3	-
Deferred tax assets	5	47.7	-
Contract assets	16	25.2	-
Trade and other receivables		29.0	49.2
Retirement benefit assets	4	58.4	39.5
Other financial assets		22.1	15.2
<b>Non-current assets</b>		<b>1,247.6</b>	<b>1,283.8</b>
<b>Current assets</b>			
Inventories		217.9	575.0
Contract assets	16	485.2	-
Trade and other receivables		385.4	603.0
Corporation tax receivable		9.1	15.4
Other financial assets		2.0	-
Cash and cash equivalents	9	311.7	330.9
<b>Current assets</b>		<b>1,411.3</b>	<b>1,524.3</b>
Assets held for sale as part of a disposal group	8	14.6	1.3
<b>Total assets</b>		<b>2,673.5</b>	<b>2,809.4</b>
<b>Current liabilities</b>			
Borrowings	9	(30.3)	(12.0)
Finance lease obligations		(1.1)	(4.0)
Trade and other payables	10	(1,342.7)	(1,526.8)
Contract liabilities	16	(134.0)	-
Provisions		(25.0)	(15.4)
<b>Current liabilities</b>		<b>(1,533.1)</b>	<b>(1,558.2)</b>
Liabilities held for sale as part of a disposal group	8	(1.5)	(3.4)
<b>Non-current liabilities</b>			
Borrowings	9	(473.6)	(524.9)
Finance lease obligations		(2.0)	(3.1)
Trade and other payables		(39.5)	(24.2)
Retirement benefit obligations	4	(38.9)	(31.6)
Provisions		(65.3)	(52.1)
Deferred tax liability		-	(10.8)
<b>Non-current liabilities</b>		<b>(619.3)</b>	<b>(646.7)</b>
<b>Total liabilities</b>		<b>(2,153.9)</b>	<b>(2,208.3)</b>
<b>Net assets</b>	2	<b>519.6</b>	<b>601.1</b>
<b>Equity</b>			
Share capital		1.6	1.0
Share premium		684.3	435.0
Capital redemption reserve		2.7	2.7
Retained earnings		(306.8)	27.6
Cash flow hedge reserve		(1.2)	(5.0)
Translation reserve		3.7	3.3
Merger reserve		134.8	134.8
Equity attributable to owners of the parent		519.1	599.4
Non-controlling interests		0.5	1.7
<b>Total equity</b>		<b>519.6</b>	<b>601.1</b>

<sup>1</sup> 2018 balance sheet reclassified to move £15.2m of 'Other financial assets' from current assets to non-current assets.

# Consolidated cash flow statement

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

For the year ended 30 June 2019

	Notes	2019 £m	2018 £m
<b>Cash flow from operating activities</b>			
(Loss)/profit before tax – continuing operations		(244.9)	106.2
– discontinued operations		-	(1.0)
Exceptional items excluding impairment, amortisation and finance costs	3	268.8	-
Net finance cost		28.2	28.2
Share of post-tax trading results of joint ventures		(30.7)	(42.7)
Normal cash contributions to pension fund in excess of pension charge		0.3	0.8
Equity settled share-based payments charge		7.2	5.4
Amortisation of intangible assets less negative goodwill recognised		38.7	37.7
Impairment of goodwill and intangible assets		47.8	-
Research and development expenditure credit		(7.8)	(8.6)
Depreciation charges		15.5	19.1
Loss/(profit) on disposal of joint ventures and subsidiaries		0.4	(3.5)
Loss/(profit) on disposal of property, plant and equipment and intangible assets		(0.2)	(0.8)
<b>Operating cash inflows before movements in working capital</b>		<b>123.3</b>	<b>140.8</b>
Deficit contributions to pension fund		(24.2)	(26.6)
Decrease in inventories		8.8	33.4
Decrease/(increase) in receivables		97.7	(29.4)
Increase in contract assets		(116.4)	-
(Decrease)/increase in payables		(88.2)	32.5
Decrease in contract liabilities		(61.4)	-
Decrease in provisions		(3.2)	(9.9)
<b>Cash (outflow)/ inflow from operating activities before exceptional items</b>		<b>(63.6)</b>	<b>140.8</b>
Cash outflow from operating activities (exceptional items)	3	(60.8)	(32.0)
<b>Cash (outflow)/ inflow from operating activities</b>		<b>(124.4)</b>	<b>108.8</b>
Dividends received from joint ventures		31.4	30.5
Interest received		0.2	0.9
Income tax received/ (paid)	5b	10.1	(9.9)
<b>Net cash (outflow)/inflow from operating activities</b>		<b>(82.7)</b>	<b>130.3</b>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		-	3.6
Proceeds from sale of subsidiary and joint ventures, net of cash disposed	12	18.7	5.0
Purchase of property, plant and equipment		(11.6)	(22.1)
Purchase of intangible assets		(19.8)	(41.2)
Purchase of capitalised mobilisation costs		(0.9)	-
Acquisition of subsidiaries	12	(29.0)	(16.7)
Investment in joint ventures		(52.0)	(77.6)
Return of equity from joint ventures		25.2	40.6
Loan repayment from joint ventures		6.1	-
Classification (from)/to assets held for sale		(2.2)	2.1
<b>Net cash used in investing activities</b>		<b>(65.5)</b>	<b>(106.3)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		249.9	0.2
Purchase of own shares		0.4	(1.3)
Interest paid		(24.3)	(21.7)
Cash outflow incurred raising finance		-	(2.0)
Inflow from finance leases on property, plant and equipment		-	2.5
Finance lease repayments		(4.5)	(10.2)
Repayment of borrowings		(39.2)	(91.3)
Dividends paid to equity holders of the parent	6	(52.6)	(66.1)
Dividends paid to non-controlling interests		(1.6)	(1.5)
<b>Net cash from/(used in) financing activities</b>		<b>128.1</b>	<b>(191.4)</b>
<b>Decrease in cash, cash equivalents and overdraft</b>		<b>(20.1)</b>	<b>(167.4)</b>
Effect of change in foreign exchange rates		0.9	(1.5)
Opening cash, cash equivalents and overdraft		330.9	499.8
<b>Closing cash, cash equivalents and overdraft</b>	9	<b>311.7</b>	<b>330.9</b>

## 1 Accounting policies

### Reporting entity

Kier Group plc (the Company) is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The address of its registered office is Tempsford Hall, Sandy, Bedfordshire, SG19 2BD.

The preliminary consolidated financial statements (financial statements) for the year ended 30 June 2019 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

### Basis of preparation

The financial statements included in this Preliminary announcement have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority, and the principles of International Financial Reporting Standards (IFRS) as adopted by the European Union but do not comply with the full disclosure requirements of these standards.

The unaudited financial information contained in this announcement does not constitute the Company's statutory accounts as at and for the year ended 30 June 2019, but is derived from those accounts, which have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. The Company's statutory accounts as at and for the year ended 30 June 2019 will be approved by the Board of Directors and reported on by the auditors and then subsequently delivered to the Registrar of Companies following the Company's Annual General Meeting on 15 November 2019. Accordingly the financial information for 2019 is presented as unaudited in this announcement.

### Going concern

The directors continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

The Group announced the conclusions of its strategic review in June 2019, which set out the Group's plans to focus on its core businesses of Regional Building, Infrastructure, Utilities and Highways; to simplify the Group by selling or substantially exiting non-core activities, including Kier Living, Property, Facilities Management and Environmental Services; to restructure the Group by reducing headcount by c.1,200 and deliver annual cost savings of c.£55m from FY2021; and to embed a culture of performance excellence with a particular focus on cash generation to deliver a reduction in average month-end net debt.

As at 19 September 2019, the Group has received a number of offers for its Residential business and has taken cost reduction actions to realise significant annualised benefits. The results of these actions will result in reduced leverage and reduced costs over the next 12 months.

At 30 June 2019, the Group had £922m of unsecured committed facilities, £20m of uncommitted overdrafts and £195m of uncommitted supply chain financing facilities.

The directors have reviewed the Group's short-term cash flow forecasts to 31 December 2020 which are included in the Group's three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios. These included consideration of the risks to the Group relating to pension funding, working capital, supply chain finance, volume reductions, margin erosion, project specific risks, delivery of the cost reduction plans, delivery of the business disposal programme and the recoverability of work in progress and debtor balances. This stress-testing also considered a combination of the individual downside profit and cashflow scenarios.

The Board undertook this assessment in the context of macro-economic and political risks affecting the UK economy, including Brexit. Brexit has the potential to disrupt the Group's operations, particularly in relation to materials, people and the supply-chain. The Group has established a 'Brexit task force' and has in place business continuity plans to mitigate the risks associated with Brexit. The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered to be more insulated from macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability. However, in light of the current macro-economic and political risks affecting the UK economy, and other risks to business performance, the Board has also planned further mitigating actions which could be taken and are within its control to ensure that the Group remains in compliance with its debt facilities and covenant requirements in severe but plausible downside business scenarios over the forecast period.

As a result, the directors are satisfied that the Group has adequate resources to meet its obligations as they fall due and, for this reason, they continue to adopt the going concern basis in preparing the Group's 2019 financial statements.

### Significant accounting policies

Except as described below, the accounting policies applied by the Group in these financial statements are consistent with those applied by the Group in its financial statements as at, and for the year ended, 30 June 2018.

The Group has applied IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' effective for the year ending 30 June 2019. Both standards have been applied retrospectively at 1 July 2018 by adjusting the opening balance sheet at that date. Further details on the transitional impact on adoption of these standards is described in note 16.

### Standards issued but not yet effective

The Group continues to work on assessing the impact of IFRS 16 'Leases'. 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 will be adopting IFRS 16 for the first time in the year ending 30 June 2020. Whilst our work over the impact of IFRS 16 is ongoing, material lease liabilities are expected to be brought onto the balance sheet along with associated right-of-use assets. In addition, prepaid rental amounts will be removed from the balance sheet. The net impact of these adjustments is expected to result in a material charge to opening reserves at 1 July 2019. We will provide further details of the quantitative impact in our Annual Report.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 1 Accounting policies continued

### Segmental reporting

From 1 July 2018, the Group changed its reporting format to focus on three market positions to comprise Infrastructure Services, Buildings and Developments & Housing. This is the basis on which the Group reports its primary segmental information for the year ended 30 June 2019. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes. The change in reporting structure has also resulted in a change to the Group's previously reported cash generating units ('CGU').

In accordance with IAS 36 'Impairment of Assets' the Group has reallocated the carrying value of the Group's goodwill as at 1 July 2018 to each of the Group's new CGUs as follows:

	£m
Infrastructure Services	527.0
Buildings	20.4
Developments & Housing	12.8
	<b>560.2</b>

Segment information is based on the information provided to the Chief Executive, together with the Board, who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services.

The accounting policies of the operating segments are the same as those of the Group. The Group evaluates segment information based on profit or loss from operations before exceptional items, amortisation of acquired intangible contract rights, interest and income tax expense. The segment results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### Exceptional items and amortisation of acquired intangible assets

During the year, the Directors have reviewed the previous accounting presentation for disclosed non-underlying items. As part of this review, the Directors have changed the Group's Alternative Performance Measure to 'Profit before exceptional items and amortisation of acquired intangible assets' to improve the transparency and clarity of the Group's financial performance.

Items which are significant by virtue of their size and/or nature are now presented as exceptional items within their relevant consolidated income statement category.

Exceptional items are items of financial performance which the Group believes should be separately identified on the face of the Income Statement to provide additional useful information and to assist in understanding the financial performance achieved by the Group and are highlighted separately in the notes to the consolidated financial statements.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the year and the extent to which results are influenced by material unusual and/or non-recurring items.

The Directors exercise judgement in determining the classification of certain items as exceptional using quantitative and qualitative factors. In assessing whether an item is exceptional, the Directors give consideration, both individually and collectively, as to whether the item is unusual by virtue of its size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items. No single criteria alone classifies an item as exceptional and management must therefore exercise judgement as to whether, on balance, classifying as such will help users of the financial statements understand the Group's business performance. Amortisation of acquired intangible assets and certain financing costs are also included alongside exceptional items on the basis of being ongoing non-cash items generated from acquisition related activity.

As a result of the Group's change in its Alternative Performance Measure, a review of the comparative year has been conducted to align to the revised presentation. A material charge of £27.0m in relation to the Mersey Gateway project within the Infrastructure division has been identified as meeting the revised exceptional classification. The results for the year ended 30 June 2018 have been re-presented accordingly. The results from the Mining operations, which were previously disclosed as non-underlying, do not meet the definition for exceptional items and therefore have been re-presented within profit before exceptional items.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 1 Accounting policies continued

A reconciliation from the reported results in the 30 June 2018 Annual Report to the revised comparative amounts is as follows:

	Previously reported underlying £m	Mining £m	Mersey Gateway £m	Profit before exceptional items £m	Previously reported non-underlying £m	Mining £m	Mersey Gateway £m	Exceptional items £m
<b>Continuing operations</b>								
<b>Revenue</b>								
Group and share of joint ventures	4,493.3	19.5	-	<b>4,512.8</b>	19.5	(19.5)	-	-
Less share of joint ventures	(273.2)	-	-	<b>(273.2)</b>	-	-	-	-
<b>Group revenue</b>	<b>4,220.1</b>	<b>19.5</b>	<b>-</b>	<b>4,239.6</b>	<b>19.5</b>	<b>(19.5)</b>	<b>-</b>	<b>-</b>
Cost of sales	(3,818.2)	(19.5)	27.0	<b>(3,810.7)</b>	(19.5)	19.5	(27.0)	<b>(27.0)</b>
<b>Gross profit/(loss)</b>	<b>401.9</b>	<b>-</b>	<b>27.0</b>	<b>428.9</b>	<b>-</b>	<b>-</b>	<b>(27.0)</b>	<b>(27.0)</b>
Administrative expenses	(288.1)	-	-	<b>(288.1)</b>	(25.6)	-	-	<b>(25.6)</b>
Share of post-tax results of joint ventures	42.7	-	-	<b>42.7</b>	-	-	-	-
(Loss)/profit on disposal of joint ventures and subsidiaries	3.5	-	-	<b>3.5</b>	-	-	-	-
<b>Profit/(loss) from operations</b>	<b>160.0</b>	<b>-</b>	<b>27.0</b>	<b>187.0</b>	<b>(25.6)</b>	<b>-</b>	<b>(27.0)</b>	<b>(52.6)</b>
Finance income	0.9	-	-	<b>0.9</b>	-	-	-	-
Finance cost	(24.0)	-	-	<b>(24.0)</b>	(5.1)	-	-	<b>(5.1)</b>
<b>Profit/(loss) before tax</b>	<b>136.9</b>	<b>-</b>	<b>27.0</b>	<b>163.9</b>	<b>(30.7)</b>	<b>-</b>	<b>(27.0)</b>	<b>(57.7)</b>
Taxation	(23.3)	-	(5.1)	<b>(28.4)</b>	5.6	-	5.1	<b>10.7</b>
<b>Profit/(loss) for the year from continuing operations</b>	<b>113.6</b>	<b>-</b>	<b>21.9</b>	<b>135.5</b>	<b>(25.1)</b>	<b>-</b>	<b>(21.9)</b>	<b>(47.0)</b>

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 2 Segmental reporting

Year to 30 June 2019	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
<b>Continuing operations</b>					
<b>Revenue<sup>1</sup></b>					
Group and share of joint ventures	1,670.7	1,882.7	939.8	1.2	4,494.4
Less share of joint ventures	-	-	(357.7)	-	(357.7)
<b>Group revenue</b>	<b>1,670.7</b>	<b>1,882.7</b>	<b>582.1</b>	<b>1.2</b>	<b>4,136.7</b>
<b>Timing of revenue<sup>1</sup></b>					
Products and services transferred at a point in time	4.0	-	319.3	-	323.3
Products and services transferred over time	1,666.7	1,882.7	620.5	1.2	4,171.1
<b>Group and share of joint ventures</b>	<b>1,670.7</b>	<b>1,882.7</b>	<b>939.8</b>	<b>1.2</b>	<b>4,494.4</b>
<b>Profit</b>					
Group operating profit/(loss)	56.4	62.4	24.8	(50.2)	93.4
Share of post-tax results of joint ventures	-	-	30.7	-	30.7
<b>Operating profit/(loss) before exceptional items</b>	<b>56.4</b>	<b>62.4</b>	<b>55.5</b>	<b>(50.2)</b>	<b>124.1</b>
Net finance (costs)/income before exceptional items <sup>2</sup>	(5.7)	4.4	(18.3)	(6.9)	(26.5)
<b>Profit/(loss) before tax and exceptional items</b>	<b>50.7</b>	<b>66.8</b>	<b>37.2</b>	<b>(57.1)</b>	<b>97.6</b>
<b>Exceptional items and amortisation of acquired intangible assets</b>					
Revenue	-	(15.0)	-	-	(15.0)
Amortisation of acquired intangible assets relating to contract rights	(20.9)	-	(3.9)	-	(24.8)
Net finance costs	-	-	(1.1)	(0.6)	(1.7)
Other exceptional items	(39.9)	(47.2)	(103.8)	(110.1)	(301.0)
<b>(Loss)/profit before tax from continuing operations</b>	<b>(10.1)</b>	<b>4.6</b>	<b>(71.6)</b>	<b>(167.8)</b>	<b>(244.9)</b>
<b>Balance sheet</b>					
Operating assets <sup>3</sup>	994.7	569.5	574.2	184.8	2,323.2
Operating liabilities <sup>3</sup>	(359.5)	(775.9)	(307.1)	(206.1)	(1,648.6)
<b>Net operating assets/(liabilities)<sup>3</sup></b>	<b>635.2</b>	<b>(206.4)</b>	<b>267.1</b>	<b>(21.3)</b>	<b>674.6</b>
Cash, cash equivalents and borrowings	139.1	298.2	(308.7)	(320.8)	(192.2)
Net financial assets	-	-	-	24.1	24.1
<b>Net assets/(liabilities) excluding net assets held for sale</b>	<b>774.3</b>	<b>91.8</b>	<b>(41.6)</b>	<b>(318.0)</b>	<b>506.5</b>
Net assets/(liabilities) held for sale	-	-	13.1	-	13.1
<b>Net assets/(liabilities)</b>	<b>774.3</b>	<b>91.8</b>	<b>(28.5)</b>	<b>(318.0)</b>	<b>519.6</b>
<b>Other information</b>					
Inter-segmental revenue	67.2	2.2	2.5	0.5	72.4
Capital expenditure on property, plant, equipment and intangible assets	2.1	5.5	5.3	18.5	31.4
Depreciation of property, plant and equipment	(1.9)	(0.8)	(6.6)	(6.2)	(15.5)
Amortisation of computer software	(1.5)	(2.9)	(1.9)	(10.1)	(16.4)

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 2 Segmental reporting continued

Year to 30 June 2018 <sup>4</sup>	Infrastructure Services £m	Buildings £m	Developments & Housing £m	Corporate £m	Group £m
<b>Revenue<sup>1</sup></b>					
Group and share of joint ventures	1,733.4	1,777.5	1,001.9	-	4,512.8
Less share of joint ventures	-	-	(273.2)	-	(273.2)
<b>Group revenue</b>	<b>1,733.4</b>	<b>1,777.5</b>	<b>728.7</b>	<b>-</b>	<b>4,239.6</b>
<b>Timing of revenue<sup>1</sup></b>					
Products and services transferred at a point in time	5.2	-	421.2	-	426.4
Products and services transferred over time	1,728.2	1,777.5	580.7	-	4,086.4
<b>Group and share of joint ventures</b>	<b>1,733.4</b>	<b>1,777.5</b>	<b>1,001.9</b>	<b>-</b>	<b>4,512.8</b>
<b>Profit</b>					
Group operating profit/(loss)	95.3	54.7	25.9	(35.1)	140.8
Share of post-tax result of joint ventures	-	-	42.7	-	42.7
Profit on disposal of joint ventures and subsidiaries	-	-	3.5	-	3.5
<b>Operating profit/(loss) before exceptional items</b>	<b>95.3</b>	<b>54.7</b>	<b>72.1</b>	<b>(35.1)</b>	<b>187.0</b>
Net finance (costs)/income before exceptional items <sup>2</sup>	(3.8)	7.0	(17.0)	(9.3)	(23.1)
<b>Profit/(loss) before tax and exceptional items</b>	<b>91.5</b>	<b>61.7</b>	<b>55.1</b>	<b>(44.4)</b>	<b>163.9</b>
<b>Exceptional items and amortisation of acquired intangible assets</b>					
Exceptional contract losses	(27.0)	-	-	-	(27.0)
Amortisation of acquired intangible assets relating to contract rights	(25.0)	-	(0.6)	-	(25.6)
Net finance costs	(1.4)	-	(3.7)	-	(5.1)
<b>Profit/(loss) before tax from continuing operations</b>	<b>38.1</b>	<b>61.7</b>	<b>50.8</b>	<b>(44.4)</b>	<b>106.2</b>
<b>Balance sheet</b>					
Operating assets <sup>3</sup>	1,142.8	504.3	715.8	99.1	2,462.0
Operating liabilities <sup>3</sup>	(522.9)	(752.9)	(310.7)	(81.5)	(1,668.0)
<b>Net operating assets/(liabilities)<sup>3</sup></b>	<b>619.9</b>	<b>(248.6)</b>	<b>405.1</b>	<b>17.6</b>	<b>794.0</b>
Cash, cash equivalents and borrowings	141.1	340.0	(343.7)	(343.4)	(206.0)
Net financial assets	-	-	-	15.2	15.2
<b>Net assets/(liabilities) excluding net liabilities held for sale</b>	<b>761.0</b>	<b>91.4</b>	<b>61.4</b>	<b>(310.6)</b>	<b>603.2</b>
Net liabilities held for sale	-	-	(2.1)	-	(2.1)
<b>Net assets/(liabilities)</b>	<b>761.0</b>	<b>91.4</b>	<b>59.3</b>	<b>(310.6)</b>	<b>601.1</b>
<b>Other information</b>					
Inter-segmental revenue	71.3	2.2	1.4	10.1	85.0
Capital expenditure on property, plant, equipment and intangible assets	4.5	4.6	3.0	51.2	63.3
Depreciation of property, plant and equipment	(8.3)	(0.8)	(4.8)	(5.2)	(19.1)
Amortisation of computer software	(0.5)	(0.9)	(0.3)	(12.2)	(13.9)

<sup>1</sup> Revenue is stated after the exclusion of inter-segmental revenue and before exceptional items. Over 90% of the Group's revenue is derived from UK based customers.

<sup>2</sup> Interest was (charged)/credited to the divisions at a notional rate of 4.0%.

<sup>3</sup> Net operating assets/(liabilities) excludes cash, cash equivalents, bank overdrafts, borrowings, financial assets and liabilities, assets and liabilities classified as held for sale and interest-bearing inter-company loans.

<sup>4</sup> Prior year restated to show the new reporting segments focused on the Group's three market positions of Infrastructure Services, Buildings and Developments & Housing.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 3 Exceptional items and amortisation of acquired intangible assets

The Directors consider that alternative performance measures referred to in these results provide useful information for readers of the accounts on the Group's financial performance. The adjustments made to statutory loss/profit are to exclude exceptional items, which are significant in size and/or nature and meeting the criteria as set out on page 20, and the amortisation of acquired intangible assets.

(Loss)/profit before taxation is stated after (charging)/crediting exceptional items and amortisation of acquired intangible assets:

	Amortisation of acquired intangible assets £m	Costs associated with previous acquisitions £m	Restructuring charges £m	Preparation for business divestment or closure £m	Exceptional contract losses £m	Other £m	2019 Total £m	2018 Total £m
<b>Continuing operations</b>								
<b>Revenue</b>								
Group and share of joint ventures	-	-	-	-	(15.0)	-	(15.0)	-
Less share of joint ventures	-	-	-	-	-	-	-	-
<b>Group revenue</b>	-	-	-	-	(15.0)	-	(15.0)	-
Cost of sales	-	-	-	(76.9)	(34.3)	-	(111.2)	(27.0)
<b>Gross profit/(loss)</b>	-	-	-	(76.9)	(49.3)	-	(126.2)	(27.0)
Administrative expenses	(24.8)	(29.3)	(56.4)	(94.4)	(0.6)	(8.7)	(214.2)	(25.6)
Loss/(profit) on disposal of joint ventures and subsidiaries	-	-	-	(0.4)	-	-	(0.4)	-
<b>Profit/(loss) from operations</b>	(24.8)	(29.3)	(56.4)	(171.7)	(49.9)	(8.7)	(340.8)	(52.6)
Net finance credits/(charges)	-	-	-	-	-	(1.7)	(1.7)	(5.1)
<b>Profit/(loss) before tax</b>	(24.8)	(29.3)	(56.4)	(171.7)	(49.9)	(10.4)	(342.5)	(57.7)
Associated tax credit/charge	4.1	4.8	9.2	28.0	8.2	1.6	55.9	10.7
<b>Charged against profit for the year</b>	(20.7)	(24.5)	(47.2)	(143.7)	(41.7)	(8.8)	(286.6)	(47.0)

### Amortisation of acquired intangible assets

Amortisation of intangible assets before tax is £24.8m (2018: £25.6m).

### Costs associated with previous acquisitions

	2019 £m	2018 £m
Impairment of McNicholas assets included at acquisition <sup>1</sup>	(21.5)	-
Integration costs relating to the McNicholas acquisition <sup>2</sup>	(11.8)	-
Release of deferred and contingent consideration <sup>3</sup>	4.0	-
<b>Total before tax</b>	(29.3)	-

<sup>1</sup> A provision against WIP acquired with McNicholas in respect of a major customer contract. The charge is considered to be exceptional on the basis of its size and the fact that these assets were acquired, as a result of which the associated income has never been recorded by the Group.

<sup>2</sup> Costs incurred to integrate the McNicholas acquisition into the Utilities business including significant double-running of people and lease costs. These are considered to be exceptional on the basis of their size, the fact that they relate to a recent major acquisition and that the integration is now substantially complete.

<sup>3</sup> The Group has released contingent consideration relating to the McNicholas acquisition which is not payable.

### Restructuring charges

The Group has incurred significant restructuring charges relating to costs of organisational change associated with the Group's Future Proofing Kier project and, latterly, the Group's Strategic Review programme announced following the appointment of Andrew Davies as CEO. These are discussed further in the Financial Review. These are considered to be exceptional on the basis of their size and the fact that they relate to major restructuring activities.

	2019 £m	2018 £m
Future Proofing Kier redundancies <sup>1</sup>	(20.0)	-
Strategic headcount reductions <sup>2</sup>	(18.7)	-
Professional advisor fees associated with restructuring programme	(9.7)	-
Costs incurred implementing non-people initiatives <sup>3</sup>	(8.0)	-
<b>Total before tax</b>	(56.4)	-

<sup>1</sup> Costs in respect of roles made redundant as a result of the Future Proofing Kier project.

<sup>2</sup> Redundancy costs arising from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions following the announcement of the strategic review.

<sup>3</sup> The Group incurred various costs in running the restructuring activities during the year. These include the incremental costs of teams involved in the management of the restructuring activities, costs incurred implementing non-people initiatives and certain external fees.

Due to the substantial nature of the project and the fact that, as previously communicated, a further 550 heads are expected to leave the business by end of FY20, the Group expects to incur further redundancy costs in the coming financial year.



# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 3 Exceptional items and amortisation of acquired intangible assets continued

### Costs incurred in the disposal of operations or in preparation for business divestment or closure

The Group has incurred various charges driven by the change in strategic direction of the Group and the decision to exit certain divisions deemed non-core to its ongoing operations. Most of these charges are non-cash and are considered to be exceptional on the basis that they relate to a major restructuring of the Group following the Strategic Review that took place earlier this year.

	2019 £m	2018 £m
Impairment of residential development sites <sup>1</sup>	(50.0)	-
Impairment of D&H goodwill and other assets <sup>2</sup>	(47.8)	-
Environmental Waste contract termination provision <sup>3</sup>	(26.8)	-
Facilities Management exit costs, impairments and other onerous contracts <sup>4</sup>	(22.4)	-
Impairment of ERP computer software <sup>5</sup>	(9.9)	-
Fair value adjustment of disposal group - note 8	(8.4)	-
Loss on disposal of subsidiaries, joint-ventures and other assets, with associated fees – note 12 <sup>6</sup>	(6.4)	-
<b>Total before tax</b>	<b>(171.7)</b>	-

<sup>1</sup> This impairment charge has been triggered by the Group's decision to dispose of its Residential division and the subsequent decision to sell certain mothballed land banks. Previously the Group had intended to develop these sites and had therefore maintained a carrying value of these assets above their market valuations at £60.0m, on a development value basis.

<sup>2</sup> During the year, the Directors assessed the recoverability assets within the Development and Housing CGU. A non-cash impairment of goodwill (£8.0m) and other assets (£39.7m) has been triggered by the impairment of the Developments and Housing CGU following the decision to dispose of various non-core divisions. See note 13.

<sup>3</sup> In securing the termination of its largest loss-making environmental waste contract, the Group has agreed to pay the local authority £27.3m over a period of six years. The Group agreed to this payment to help it exit the Environmental business by reducing a significant future central overhead that would have otherwise still been needed to service the loss-making contract.

<sup>4</sup> Following the announcement of the Group's intention to exit the Facilities Management division, a number of charges have been recognised. These include costs incurred in exiting contracts (£9.6m) and contract exit charges (£3.6m). In addition, an impairment of software (£4.8m) has also been incurred as a result of the decision to abandon some functionality of certain assets following the announcement of the intention to exit the division and an onerous contract (£4.4m) has been recognised in respect of a vacated property.

<sup>5</sup> A cost of £9.9m has been written-off due to software functionality which will no longer be utilised within the Group.

<sup>6</sup> Comprises adviser fees along with the loss on disposal is the net impact of a gain on sale of Unity (£2.5m) and losses on disposal of KHSA Limited (£1.4m), the Group's pension administration business (£1.9) and Living's shared equity portfolio (£1.3m).

### Exceptional contract losses

The Group has incurred significant losses of £43.5m relating to the Broadmoor Hospital development project in respect of future recoveries of costs from the client and other third parties. The loss is split between revenue (£15m) and cost of sales (£28.5m).

The Group has incurred significant charges in relation to the completion of the Mersey Gateway project, for which an exceptional charge of £27.0m was incurred in the year ended 30 June 2018, with further costs of £6.4m incurred in the current year.

The charges in relation to Broadmoor and Mersey Gateway have been classified as exceptional items on the basis of the highly material size of the charges incurred in the current and prior years. In the view of the Directors, both of these contract losses are also considered exceptional on the basis that they arose from contractual arrangements that would not typically be agreed to by the respective businesses.

### Other exceptional items

Other exceptional items are analysed below:

	2019 £m	2018 £m
Procurement charge <sup>1</sup>	(16.1)	-
Pension increase exchange pension gain – note 4	16.1	-
GMP Pension charge - note 4	(6.1)	-
External fees <sup>2</sup>	(2.6)	-
Net financing costs <sup>3</sup>	(1.7)	(5.1)
<b>Total before tax</b>	<b>(10.4)</b>	<b>(5.1)</b>

<sup>1</sup> The Group has incurred a charge in relation to certain aged procurement recoveries that have been written off as a result of changes in the Group's commercial landscape over the course of the financial year. The charge is deemed exceptional on the basis of its size. None of the associated income was recognised during this financial year.

<sup>2</sup> External fees include £1.5m in relation to the pension increase exchange gain and £1.1m of other fees.

<sup>3</sup> Net financial costs relate to discount unwinding of acquired intangible assets and other exceptional provisions.

# Notes to the financial statements

## Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

### 4 Retirement benefit obligations

The amounts recognised in the financial statements in respect of the Group's defined benefit schemes are as follows:

	2019					2018				
	Kier Group Pension Scheme £m	May Gurney Pension Scheme £m	Mouchel Pension Schemes <sup>1,2</sup> £m	McNicholas Pension Scheme £m	Total £m	Kier Group Pension Scheme £m	May Gurney Pension Scheme £m	Mouchel Pension Schemes <sup>1,2</sup> £m	McNicholas Pension Scheme £m	Total £m
Opening surplus/(deficit)	25.2	(1.1)	(8.8)	(7.4)	<b>7.9</b>	(31.1)	(5.9)	(47.6)	-	<b>(84.6)</b>
Acquired deficit	-	-	-	-	-	-	-	-	(10.9)	<b>(10.9)</b>
Credit/(charge) to income statement	11.7	(0.5)	(0.6)	(0.3)	<b>10.3</b>	(1.0)	(0.2)	(1.6)	(0.2)	<b>(3.0)</b>
Employer contributions	12.2	1.8	9.0	1.2	<b>24.2</b>	13.4	2.4	9.2	1.6	<b>26.6</b>
Actuarial gains/(losses)	(9.7)	1.2	(14.2)	(0.2)	<b>(22.9)</b>	43.9	2.6	31.2	2.1	<b>79.8</b>
<b>Closing surplus/(deficit)</b>	<b>39.4</b>	<b>1.4</b>	<b>(14.6)</b>	<b>(6.7)</b>	<b>19.5</b>	<b>25.2</b>	<b>(1.1)</b>	<b>(8.8)</b>	<b>(7.4)</b>	<b>7.9</b>
Comprising:										
Total market value of assets	1,189.8	81.0	492.6	26.0	<b>1,789.4</b>	1,120.0	75.1	463.4	22.7	<b>1,681.2</b>
Present value of liabilities	(1,150.4)	(79.6)	(507.2)	(32.7)	<b>(1,769.9)</b>	(1,094.8)	(76.2)	(472.2)	(30.1)	<b>(1,673.3)</b>
<b>Net surplus/(deficit)</b>	<b>39.4</b>	<b>1.4</b>	<b>(14.6)</b>	<b>(6.7)</b>	<b>19.5</b>	<b>25.2</b>	<b>(1.1)</b>	<b>(8.8)</b>	<b>(7.4)</b>	<b>7.9</b>
Related deferred tax (liability)/asset	(6.7)	(0.2)	2.5	1.1	<b>(3.3)</b>	(4.3)	0.2	1.5	1.3	<b>(1.3)</b>
<b>Net pension asset/(liability)</b>	<b>32.7</b>	<b>1.2</b>	<b>(12.1)</b>	<b>(5.6)</b>	<b>16.2</b>	<b>20.9</b>	<b>(0.9)</b>	<b>(7.3)</b>	<b>(6.1)</b>	<b>6.6</b>

Presentation of net surplus/(deficit) above in the Consolidated balance sheet:

Retirement benefit assets	39.4	1.4	17.6	-	<b>58.4</b>	25.2	-	14.3	-	<b>39.5</b>
Retirement benefit obligations	-	-	(32.2)	(6.7)	<b>(38.9)</b>	-	(1.1)	(23.1)	(7.4)	<b>(31.6)</b>
<b>Net surplus/(deficit)</b>	<b>39.4</b>	<b>1.4</b>	<b>(14.6)</b>	<b>(6.7)</b>	<b>19.5</b>	<b>25.2</b>	<b>(1.1)</b>	<b>(8.8)</b>	<b>(7.4)</b>	<b>7.9</b>

<sup>1</sup> This comprises of schemes in a net surplus and net deficit position: £17.6m and £32.2m at 30 June 2019 (2018: £14.3m surplus and £23.1m deficit).

<sup>2</sup> The Mouchel figures comprise four individual schemes (Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme) which have been grouped together because they were purchased as part of the Mouchel Group. The composition of these schemes has not changed since the prior year.

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that pension schemes must equalise Guaranteed Minimum Pensions (GMP) between male and female members. Amounts charged to the income statement for the year to 30 June 2019 include an exceptional GMP charge of £6.1m (2018: £nil).

During the year, the Group launched a member options exercise, offering a Pension Increase Exchange (PIE) to members of the Kier Group Pension Scheme and the Mouchel Business Services Limited Pension Scheme. The initiative was carried out with support from the Trustees of the pension schemes, in order to provide more flexibility and choice for members, reduce risk, and reduce cost in the Group's defined benefit pension schemes. The PIE offering was introduced as follows:

- › A bulk PIE exercise, offering members who are already drawing a pension a one-off increase in pension in lieu of future annual increases on part of their pension, supported with independent financial advice paid for by Kier. The terms are such that the IAS 19 pension liabilities are reduced if pensioners take this option, with the gain of £6.8m recognised as a one-off exceptional income credit recognised during the year to 30 June 2019.
- › PIE option at the point of retirement as 'business as usual' on the same terms as the bulk exercise. Kier will pay for members to take financial advice at the point of retirement, including on the PIE at retirement option. A reduction in IAS 19 pension liabilities can be recognised based on an assumed rate of future take-up. The PIE at retirement option has resulted in a further exceptional income credit of £9.3m recognised during the year to 30 June 2019.

A combined gain for both the bulk PIE exercise and the introduction of the at retirement option of £16.1m has been recognised as an exceptional gain disclosed net of associated fees of £1.5m in the year to 30 June 2019.

Kier is directly meeting the costs of implementing the PIE exercises and has incurred an exceptional cost of £1.5m in the year to 30 June 2019.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 5 Taxation

### a) Recognised in the income statement

	2019			2018		
	Before exceptional items £m	Exceptional items (note 3) <sup>1</sup> £m	Total £m	Before exceptional items £m	Exceptional items (note 3) £m	Total £m
<b>Current tax expense/(credit)</b>						
UK corporation tax	2.7	-	2.7	10.5	(6.3)	4.2
Adjustments in respect of prior years	2.9	-	2.9	0.1	-	0.1
Foreign tax relief	(0.3)	-	(0.3)	(1.6)	-	(1.6)
	5.3	-	5.3	9.0	(6.3)	2.7
Foreign tax suffered	2.4	-	2.4	2.6	-	2.6
<b>Total current tax</b>	<b>7.7</b>	<b>-</b>	<b>7.7</b>	<b>11.6</b>	<b>(6.3)</b>	<b>5.3</b>
<b>Deferred tax expense/(credit)</b>						
Origination and reversal of temporary differences	17.5	(62.5)	(45.0)	21.6	(4.4)	17.2
Adjustments in respect of prior years	(2.3)	-	(2.3)	(3.0)	-	(3.0)
Rate change effect on deferred tax	(2.7)	6.6	3.9	(1.8)	-	(1.8)
<b>Total deferred tax</b>	<b>12.5</b>	<b>(55.9)</b>	<b>(43.4)</b>	<b>16.8</b>	<b>(4.4)</b>	<b>12.4</b>
<b>Total tax charge/(credit) in the income statement</b>	<b>20.2</b>	<b>(55.9)</b>	<b>(35.7)</b>	<b>28.4</b>	<b>(10.7)</b>	<b>17.7</b>
<b>Reconciliation of effective tax rate</b>						
Profit/(loss) before tax	97.6	(342.5)	(244.9)	163.9	(57.7)	106.2
Add: tax on joint ventures included above	-	-	-	0.1	-	0.1
<b>Adjusted profit/(loss) before tax</b>	<b>97.6</b>	<b>(342.5)</b>	<b>(244.9)</b>	<b>164.0</b>	<b>(57.7)</b>	<b>106.3</b>
Income tax at UK corporation tax rate of 19.00% (2018: 19.00%)	18.5	(65.1)	(46.6)	31.1	(10.9)	20.2
Non-deductible expenses and unusable tax losses	1.7	3.2	4.9	0.7	0.1	0.8
Income not taxable	(1.1)	(0.7)	(1.8)	(0.3)	-	(0.3)
Effect of tax rates in foreign jurisdictions	1.3	-	1.3	1.1	-	1.1
Effect of change in UK corporation tax rate	(2.6)	6.6	4.0	(1.9)	0.1	(1.8)
Share based payments deduction	1.4	-	1.4	1.5	-	1.5
Capital gains not taxed	-	0.1	0.1	(0.5)	-	(0.5)
Utilisation of tax losses	0.4	-	0.4	(0.3)	-	(0.3)
Adjustments in respect of prior years	0.6	-	0.6	(2.9)	-	(2.9)
<b>Total tax (including joint ventures)</b>	<b>20.2</b>	<b>(55.9)</b>	<b>(35.7)</b>	<b>28.5</b>	<b>(10.7)</b>	<b>17.8</b>
Tax on joint ventures	-	-	-	(0.1)	-	(0.1)
<b>Group tax charge/(credit)</b>	<b>20.2</b>	<b>(55.9)</b>	<b>(35.7)</b>	<b>28.4</b>	<b>(10.7)</b>	<b>17.7</b>

<sup>1</sup> Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see page 20.

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. However, the Group does operate and pay taxes in jurisdictions where the tax rate is higher than the UK's statutory rate. The Group does not have an aggressive tax policy and since 1st July 2012 Kier has not entered into any tax avoidance schemes which were or should have been notified under the Disclosure of Tax Avoidance Scheme (DOTAS) rules.

The Group tax charge before exceptional items and amortisation of acquired intangible assets of £20.2m (2018: £28.4m) shown in the table above equates to an effective tax rate of 20.6% (2018: 17.3%) on adjusted profit before tax of £97.6m (2018: £163.9m). This effective rate is higher than the standard rate of corporation tax of 19.0% (2018: 19.0%) due to items shown in the table above. The non-deductible expenses included before exceptional items and amortisation of acquired intangible assets mainly relate to depreciation on non-qualifying assets.

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn Scheme and Long Term Incentive Plan.

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposure. At the balance sheet date, a deferred tax liability of £3.4m (2018: £5.5m) has been recognised in respect of uncertain tax positions.

The net charge of £0.6m (2018: £2.9m credit) in respect of prior year's results arise from differences between the estimates of taxation included in the previous year's financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

# Notes to the financial statements

## Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

### 5 Taxation continued

#### b) Recognised in the cash flow statement

The cash flow statement shows cash received of £10.1m during the year (2018: £9.9m paid).

#### c) Recognised in the statement of comprehensive income

	2019 £m	2018 £m
<b>Deferred tax (credit)/charge (including effect of change in tax rate)</b>		
Share of fair value movements on joint venture cash flow hedging instruments	-	0.1
Fair value movements on cash flow hedging instruments	0.7	(0.3)
Actuarial gains/(losses) on defined benefit pension schemes	(3.9)	13.6
<b>Total tax (credit)/charge in the statement of comprehensive income</b>	<b>(3.2)</b>	<b>13.4</b>

#### d) Factors that may affect future tax charges

The deferred tax balance as at the year-end has been recognised at 17.0% which is the enacted corporation tax rate that will be effective from 1 April 2020.

#### e) Tax losses

At the balance sheet date, the Group has unused tax losses of £514.6m (2018: £217.4m) available for offset against future profits. A deferred tax asset has been recognised on £348.5m (2018: £39.4m) of these losses.

No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

### 6 Dividends

Amounts recognised as distributions to equity holders in the year:

	2019 £m	2018 £m
Final dividend for the year ended 30 June 2018 of 46.0 pence (2017: 45.0 pence)	44.7	43.7
Interim dividend for the year ended 30 June 2019 of 4.9 pence (2018: 23.0 pence)	7.9	22.4
	<b>52.6</b>	<b>66.1</b>

The Group's focus on cash generation and reducing net debt has required a suspension in dividend payments for the second half of FY19 and the whole of FY20. The last dividend declared was the FY19 interim dividend of 4.9 pence per share (2018: 23.0 pence). The total dividend for the year is therefore 4.9 pence (2018: 69.0 pence). This was approved and paid before the balance sheet date.

The parent company of the Group, Kier Group plc, is a non-trading holding company which derives its distributable reserves in part from dividends received from its subsidiaries. In determining the level of dividend payable in any year, in addition to the stated policy, the Board considers a number of other factors, including the following:

- › the level of distributable reserves in the parent company, Kier Group plc;
- › the level of distributable reserves in Kier Group plc's subsidiaries that are available to be distributed to Kier Group plc;
- › the availability of cash resources;
- › the Group's borrowing covenants;
- › future cash commitments and investment plans to support the long-term growth of the Group; and
- › potential strategic opportunities under consideration.

The Board reviews the level of distributable reserves in the parent company at least twice a year ahead of announcing proposed interim and final dividends. The dividends paid out during the year total 4.9 pence per share (2018: 69.0 pence) on an earnings per share before exceptional items and amortisation of acquired intangible assets of 58.2 pence (2018: 136.8 pence), giving a dividend cover of 11.9x (2018: 2.0x).

# Notes to the financial statements

## Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

### 7 Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to profit and earnings per share before exceptional items and amortisation of acquired intangible assets is set out below. The adjustments are made to illustrate the impact of exceptional items and amortisation of acquired intangible assets.

	2019		2018 <sup>2</sup>	
	Basic £m	Diluted £m	Basic £m	Diluted <sup>3</sup> £m
<b>(Loss)/earnings</b>				
<b>Continuing operations</b>				
Earnings (after tax and non-controlling interests), being net profits attributable to equity holders of the parent	(209.6)	(209.6)	88.3	88.3
<b>Impact of exceptional items<sup>1</sup> net of tax:</b>				
Amortisation of intangible assets - net of tax credit of £4.2m (2018: £4.7m)	20.5	20.5	20.9	20.9
Acquisition discount unwind <sup>4</sup> - net of tax credit of £0.3m (2018: £0.9m)	1.4	1.4	2.8	2.8
Other exceptional items <sup>1</sup> - net of tax credit of £51.4m (2018: £3.4m)	264.7	264.7	23.3	23.3
<b>Earnings from continuing operations before exceptional items<sup>1</sup></b>	<b>77.0</b>	<b>77.0</b>	135.3	135.3
<b>Discontinued operations</b>				
Loss (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	-	-	(1.0)	(1.0)
<b>Loss from discontinued operations</b>	<b>-</b>	<b>-</b>	(1.0)	(1.0)
	million	million	million	million
Weighted average number of shares used for earnings per share	132.2	132.2	98.9	100.0
	Basic	Diluted	Basic	Diluted
<b>Earnings per share</b>	<b>pence</b>	<b>pence</b>	pence	pence
<b>Continuing operations</b>				
(Loss)/earnings (after tax and non-controlling interests), being net profits attributable to equity holders of the parent	(158.5)	(158.5)	89.3	88.3
<b>Impact of exceptional items<sup>1</sup> net of tax:</b>				
Amortisation of intangible assets - net of tax credit of £4.2m (2018: £4.7m)	15.5	15.5	21.1	20.9
Acquisition discount unwind <sup>4</sup> - net of tax credit of £0.3m (2018: £0.9m)	1.0	1.0	2.8	2.8
Other exceptional items <sup>1</sup> - net of tax credit of £51.4m (2018: £3.4m)	200.2	200.2	23.6	23.3
<b>Earnings from continuing operations before exceptional items</b>	<b>58.2</b>	<b>58.2</b>	136.8	135.3
<b>Discontinued operations</b>				
Loss (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	-	-	(1.0)	(1.0)
<b>Loss from discontinued operations</b>	<b>-</b>	<b>-</b>	(1.0)	(1.0)
<b>Total earnings per share</b>				
<b>Statutory</b>	<b>(158.5)</b>	<b>(158.5)</b>	88.3	87.3
<b>Before exceptional items<sup>1</sup></b>	<b>58.2</b>	<b>58.2</b>	135.3	134.3

<sup>1</sup> Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see page 20.

<sup>2</sup> Restated as a result of the rights issue which completed on 20 December 2018 and the re-presentation of the Group's revised Alternative Performance Measure.

<sup>3</sup> In calculating the diluted earnings per share for 2018, the weighted average number of ordinary shares used as the denominator in calculating the basic earnings per share was adjusted by 1.1 million shares in relation to share options. No dilution was required in 2019 due to the net loss position.

<sup>4</sup> Unwind of discount in respect of deferred consideration.

# Notes to the financial statements

## Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

### 8 Assets and liabilities held for sale

In December 2018, the Group began a formal sales process to dispose of its interest in Pure Recycling Warwick Limited ('Pure'). Heads of terms were signed in June 2019 with a view to completing the sale before the end of the next financial year. After the balance sheet date, an interested buyer was identified, and the assets were impaired to their realisable fair value. The remaining value classified as held for sale as at 30 June 2019 is £6.2m of assets and £1.5m of liabilities.

The Group's investment in its joint venture interest in Kier Hammersmith Limited ('KHL') of £8.4m has been classified as held for sale. The Group's interest in this joint venture is being actively marketed and discussions are well advanced as at 30 June 2019. The transaction is expected to complete in the first half of the next financial year.

The Group's investment in its joint venture interest in Strawberry Percy LLP ('SPL') had previously been classified as held for sale at 31 December 2018. However, the sale is no longer expected to take place therefore the assets and liabilities of SPL have not been classified as held for sale as at 30 June 2019.

During the prior year the pensions administration business was deemed non-core to the Kier Group portfolio. The Group exchanged contracts to dispose of the business on 17 September 2018 and therefore its assets and liabilities were classified as held for sale as at 30 June 2018. The disposal was completed on 31 October 2018.

<b>Assets of disposal group classified as held for sale</b>	<b>2019 £m</b>	<b>2018 £m</b>
Intangible assets – computer software	0.5	0.1
Property, plant and equipment	4.8	-
Investments in and loans to joint ventures	8.4	-
Contract assets	0.5	-
Trade and other receivables	0.1	1.2
Corporation tax receivable	0.3	-
	<b>14.6</b>	<b>1.3</b>

<b>Liabilities of disposal group classified as held for sale</b>	<b>2019 £m</b>	<b>2018 £m</b>
Overdrafts	-	(2.2)
Trade and other payables	(1.5)	(1.2)
<b>Total</b>	<b>(1.5)</b>	<b>(3.4)</b>

### 9 Cash, cash equivalents, overdraft and borrowings

	<b>2019 £m</b>	<b>2018 £m</b>
<b>Net debt consists of:</b>		
Cash and cash equivalents – bank balances and cash in hand	311.7	330.9
Borrowings due within one year	(30.3)	(12.0)
Borrowings due after one year	(473.6)	(524.9)
Impact of cross-currency hedging	25.0	20.3
<b>Net debt</b>	<b>(167.2)</b>	<b>(185.7)</b>

Average net debt on a monthly basis was £422m (2018: £375m).

### 10 Trade and other payables

Included within the trade and other payables balance is £170.2m (2018: £184.8m) relating to payments due to suppliers who are on bank-supported supply chain finance arrangements.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 11 Share-based payments

The Group has established a Long-Term Incentive Plan (LTIP) under which directors can receive awards of shares. Senior employees also participate in LTIP awards granted before the introduction of the CSAP, which replaced the LTIP awards for senior employees who were not main board directors. The market price of Kier Group plc shares at the date of exercise of LTIP options was 886 pence (2018: 1,078 pence).

	2019		2018	
	Number of shares	Value £m	Number of shares	Value £m
<b>At 1 July</b>	<b>251,701</b>	<b>2.5</b>	368,067	4.0
Acquired during the year	<b>385,721</b>	<b>1.0</b>	153,340	1.6
Issued in satisfaction of awards and other schemes	<b>(269,307)</b>	<b>(1.0)</b>	(239,514)	(2.8)
Issued in satisfaction of deferred bonus schemes	<b>(61,798)</b>	<b>(0.2)</b>	(30,192)	(0.3)
<b>At 30 June</b>	<b>306,317</b>	<b>2.3</b>	251,701	2.5

The Group's share-based payment charge for the year was £7.2m (2018: £5.4m).

## 12 Acquisitions and disposals

The Group has completed the following acquisitions and disposals during the year, in chronological order:

### (a) Disposal of Unity

On 2 July 2018, the Group, through its subsidiary MPHBS Limited ('MPHBS'), disposed of its interest in The Unity Partnership Limited ('Unity') for a total consideration of £1.5m. Unity was a partnership between MPHBS and Oldham Metropolitan Borough Council ('OMBC') and delivered property, highways, transactional services, information and communication technology and business services.

	£m
Consideration	1.5
Cost of disposal	(0.4)
Book value of net assets sold	(3.0)
<b>Loss on disposal</b>	<b>(1.9)</b>

### (b) Disposal of the Group's pension administration business

On 31 October 2018, the Group disposed of its pension's administration business, which was deemed non-core to the Kier Group portfolio, for a total consideration of £3.7m. The business was classified as held for sale as at 30 June 2018.

	£m
Consideration	3.7
Cost of disposal	(0.9)
Book value of net assets sold	(0.3)
<b>Gain on disposal</b>	<b>2.5</b>

### (c) Disposal of KHSA Limited

On 21 December 2018, the Group, through its subsidiary Kier Holdings Limited, disposed of its interest in KHSA Limited ('KHSA') for a total consideration of AUS\$43.7m (£24.5m), of which AUS\$41.7m (£23.4m) was received on completion, and the balance of AUS\$2.0m (£1.1m) is deferred subject to satisfaction of future contractual commitments. KHSA, which was acquired as part of the Mouchel group of companies in 2015, was a joint operation providing road asset management and maintenance services in Australia.

	£m
Cash consideration	24.5
Cost of disposal	(1.7)
Book value of assets sold excluding goodwill and intangible contract rights	(6.9)
<b>Profit on disposal excluding goodwill and intangible contract rights</b>	<b>15.9</b>
Goodwill disposed	(10.8)
Intangible contract rights disposed (net of related deferred tax liability of £1.3m)	(6.5)
<b>Loss on disposal</b>	<b>(1.4)</b>

# Notes to the financial statements

## Continued

### 12 Acquisitions and disposals continued

#### (d) Acquisition of Arena Central

On 22 February 2019 the Group acquired control of Arena Central Developments LLP ('Arena Central') through two of its subsidiary companies, Kier Property Developments Limited and Kier Ventures Limited, who each acquired a 50% share. Arena Central is a 9.2-acre mixed-use city centre development in Birmingham, providing office space, retail, leisure and residential buildings. The Group has the rights to develop three further phases of the sites existing master plan. The development includes three office buildings totalling 526,009 square foot, phased over five to seven years, known as 5 Centenary Square, 4 Arena Central and 5 Arena Central. The total consideration paid was £29.7m of cash paid on acquisition. £0.9m of acquisition costs were incurred in the year and expensed to the income statement.

The fair values attributable to the transaction are set out below:

	Fair value to the Group £m
Inventories	24.6
Trade and other receivables	11.0
Cash and cash equivalents	0.7
Trade and other payables	(3.3)
Deferred tax liabilities	(2.5)
	<b>30.5</b>
Negative goodwill	(0.8)
Total assets acquired	<b>29.7</b>
Satisfied by:	
Cash consideration	29.7
Total consideration	<b>29.7</b>

The Arena Central business contributed £17.9m to Group revenue and £1.1m to profit before exceptional items and taxation for the year to 30 June 2019. If the business was part of the Group for the full year, then £21.1m of revenue and £1.1m of profit before exceptional items for the year ended 30 June 2019 would have been recognised.

#### (e) Disposal of Social Power (Harlow) Holdings Limited

On 14 June 2019, the Group, through its subsidiary Kier Project Investment Limited, disposed of its investment in Social Power (Harlow) Holdings Limited for proceeds of £1.0m.

	2019 £m
Sale proceeds	1.0
Cost of disposal	(0.1)
Carrying value of assets	(0.7)
<b>Gain on disposal</b>	<b>0.2</b>



# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 13 Goodwill and intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software £m	Total £m
<b>Cost</b>				
<b>At 1 July 2017</b>	517.4	283.4	112.2	<b>913.0</b>
Additions	-	1.6	39.6	<b>41.2</b>
Acquired	42.8	15.0	-	<b>57.8</b>
Disposals	-	(25.5)	-	<b>(25.5)</b>
Transfers to assets held for sale	-	-	(0.2)	<b>(0.2)</b>
<b>At 30 June 2018</b>	<b>560.2</b>	<b>274.5</b>	<b>151.6</b>	<b>986.3</b>
Additions	-	-	19.8	<b>19.8</b>
Disposals	(10.7)	(15.1)	(15.6)	<b>(41.4)</b>
Transfers to assets held for sale	(4.8)	-	(0.8)	<b>(5.6)</b>
<b>At 30 June 2019</b>	<b>544.7</b>	<b>259.4</b>	<b>155.0</b>	<b>959.1</b>
<b>Accumulated amortisation and impairment</b>				
<b>At 1 July 2017</b>	-	(92.7)	(17.5)	<b>(110.2)</b>
Charge for the year	-	(25.6)	(13.9)	<b>(39.5)</b>
Disposals	-	25.5	-	<b>25.5</b>
Transfers to assets held for sale	-	-	0.1	<b>0.1</b>
<b>At 30 June 2018</b>	-	<b>(92.8)</b>	<b>(31.3)</b>	<b>(124.1)</b>
Charge for the year	-	(25.0)	(16.4)	<b>(41.4)</b>
Disposals	-	7.0	4.1	<b>11.1</b>
Impairment <sup>3</sup>	(8.0)	(0.2)	(29.5)	<b>(37.7)</b>
Transfer from tangible fixed assets	-	-	(0.3)	<b>(0.3)</b>
<b>At 30 June 2019</b>	<b>(8.0)</b>	<b>(111.0)</b>	<b>(73.4)</b>	<b>(192.4)</b>
<b>Net book value</b>				
<b>At 30 June 2019</b>	<b>536.7</b>	<b>148.4</b>	<b>81.6</b>	<b>766.7</b>
At 30 June 2018	560.2	181.7	120.3	862.2

Following the Strategic Review, the Directors assessed the recoverability of the goodwill allocated to the Developments & Housing CGU and concluded an impairment of £8.0m was required. A further £39.7m impairment was required to reduce a portion of the remaining assets allocated to this segment. This resulted in additional impairments of intangible assets totalling £29.7m and of Property, Plant & Equipment totalling £10m. These impairments have been recorded as an exceptional item.

## 14 Related parties

The Group has related party relationships with its joint ventures, key management personnel and pension schemes in which its employees participate.

There have been no significant changes in the nature of related party transactions since the last annual financial statements as at, and for the year ended, 30 June 2018.

Details of contributions made to the pension schemes by the Group are detailed in note 4.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 15 Guarantees, contingent liabilities and contingent assets

The Company has given guarantees and entered into counter-indemnities in respect of bonds relating to certain of the Group's own contracts. The Company has also given guarantees in respect of certain contractual obligations of its subsidiaries and joint ventures, which were entered into in the normal course of business, as well as certain of the Group's other obligations (for example, in respect of the Group's finance facilities and its pension schemes). Financial guarantees over the obligations of the Company's subsidiaries and joint ventures are measured at fair value. The fair value measurement is based on the premium received from the joint venture or the differential in the interest rate of the borrowing including and excluding the guarantee. Performance guarantees are treated as a contingent liability until such time as it becomes probable that payment will be required under its terms.

Provisions are made for the Directors' best estimate of known legal claims, investigations and legal actions relating to the Group which are considered more likely than not to result in an outflow of economic benefit. If the Directors consider that a claim, investigation or action relating to the Group is unlikely to succeed, no provision is made. If the Directors cannot make a reliable estimate of a potential, material obligation, no provision is made but details of the claim are disclosed.

## 16 Changes in accounting policies

The Group has adopted IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' with effect from 1 July 2018 using the cumulative effect method, and as such comparative information has not been restated.

### IFRS 9 'Financial Instruments'

IFRS 9 replaced IAS 39 'Financial Instruments: Recognition and Measurement'. All financial instruments classified as trade and other receivables under IAS 39, as well as contract assets recognised in accordance with IFRS 15, have been classified and measured at amortised cost under IFRS 9.

IFRS 9 requires the Group to recognise expected credit losses ('ECL') whereby expected losses as well as incurred losses are provided for. The Group applies the simplified approach when determining ECL provisions for contract assets and trade receivables. In making the assessment of credit risk and estimating ECL provisions, the Group uses reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions.

The adoption of IFRS 9 has had no material impact on the Group's financial statements.

### IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and introduces a 5-step model to account for revenue, with new guidance provided in areas on which previous IFRSs were silent.

It is important to note that, whilst the change from the old revenue recognition standards to IFRS 15 can impact on the timing of revenue and profit recognition on individual contracts in a particular accounting period, it does not change the overall revenue, profit or cash generated over the life of the contract.

The adoption of IFRS 15 has resulted in additional line items being disclosed on the Group's Consolidated balance sheet and Consolidated cash flow statement as follows:

- › Consolidated balance sheet: Capitalised mobilisation costs and contract assets have been included within non-current assets; contract assets have been included within current assets; and contract liabilities have been included within current liabilities.
- › Consolidated cash flow statement: Increase in contract assets and decrease in contract liabilities have been included within cash flow from operating activities; and payment of capitalised mobilisation costs have been included within cash flows from investing activities.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 16 Changes in accounting policies continued

### Transition adjustments

The table below summarises the impact of the adoption of IFRS 15 at the date of first application:

#### Consolidated balance sheet

	Adjustment reference	30 June 2018 £m	Impact of adopting IFRS 15 £m	1 July 2018 £m
<b>Non-current assets</b>				
Intangible assets	E	862.2	(0.9)	861.3
Property, plant and equipment	E	91.6	(2.8)	88.8
Investment in and loans to joint ventures		226.1	-	226.1
Capitalised mobilisation costs	E	-	2.4	2.4
Deferred tax asset	A-E	-	1.6	1.6
Contract assets	F	-	21.1	21.1
Trade and other receivables	F	49.2	(21.1)	28.1
Other non-current assets		39.5	-	39.5
<b>Non-current assets</b>		<b>1,268.6</b>	<b>0.3</b>	<b>1,268.9</b>
<b>Current assets</b>				
Inventories	A,E,F	575.0	(322.9)	252.1
Contract assets	A,F	-	409.6	409.6
Trade and other receivables	F	603.0	(150.0)	453.0
Other current assets		361.5	-	361.5
<b>Current assets</b>		<b>1,539.5</b>	<b>(63.3)</b>	<b>1,476.2</b>
Assets held for sale as part of a disposal group		1.3	-	1.3
<b>Total assets</b>		<b>2,809.4</b>	<b>(63.0)</b>	<b>2,746.4</b>
<b>Current liabilities</b>				
Trade and other payables	A,F	(1,526.8)	187.0	(1,339.8)
Contract liabilities	F	-	(195.4)	(195.4)
Other current liabilities		(31.4)	-	(31.4)
<b>Current liabilities</b>		<b>(1,558.2)</b>	<b>(8.4)</b>	<b>(1,566.6)</b>
Liabilities held for sale as part of a disposal group		(3.4)	-	(3.4)
<b>Non-current liabilities</b>				
Deferred tax liability	A-D	(10.8)	10.8	-
Other non-current liabilities		(635.9)	-	(635.9)
<b>Non-current liabilities</b>		<b>(646.7)</b>	<b>10.8</b>	<b>(635.9)</b>
<b>Total liabilities</b>		<b>(2,208.3)</b>	<b>2.4</b>	<b>(2,205.9)</b>
<b>Net assets</b>		<b>601.1</b>	<b>(60.6)</b>	<b>540.5</b>
<b>Equity</b>				
Retained earnings	A-E	27.6	(60.8)	(33.2)
Other equity		571.8	0.2	572.0
Equity attributable to owners of the parent		599.4	(60.6)	538.8
Non-controlling interests		1.7	-	1.7
<b>Total equity</b>		<b>601.1</b>	<b>(60.6)</b>	<b>540.5</b>

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 16 Changes in accounting policies continued

The table below provides a breakdown of the movement in the opening retained earnings by each of the principle adjustments. Explanatory notes for each of the adjustments are provided below the table.

### Impact on reserves

Adjustment	Impact of adopting IFRS 15 £m
A Change in method of calculating the percentage of completion on construction contracts	(28.1)
B Third party claims	(26.0)
C Derecognition of certain variable revenue items	(9.7)
D Disaggregation of performance obligations and other adjustments	(3.4)
E Capitalised mobilisation costs	(5.8)
	<b>(73.0)</b>
Deferred tax credit on the above (at 17.0%)	12.4
<b>Total adjustment to reserves</b>	<b>(60.6)</b>

#### A - Change in the method of calculating the percentage of completion on construction contracts

IFRS 15 requires a consistent revenue recognition method for contracts and performance obligations with similar characteristics. Previously, the Group used an output measure of progress (based on external valuations) in its construction businesses and input methods in its services businesses. For its construction businesses, the Group has chosen to move to using the percentage of completion method, using cost incurred to date as a proportion of the estimated full costs of completing the contract, applied to the total expected contract revenue. The Group believes that moving to this input measure of progress better reflects the pattern of transfer of control to the customer and achieves consistency with other businesses within the Group. Contracts were found, on average, to have a lower percentage of completion when compared to the previous measure.

#### B - Third-party claims

IAS 11 'Construction Contracts' permitted the recognition of expected cost reimbursements resulting from claims against a third party (as well as the customer) if it was probable that the claim would be accepted. Certain third-party claims (such as insurance recoveries and claims for cost reimbursements) are not covered by similar provisions in IFRS 15, which only deals with claims against the customer. Following the withdrawal of IAS 11, in order to recognise an asset for these third-party claims the Group will need to comply with the requirements of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. The requirements of IAS 37 are more stringent than IAS 11, requiring recovery to be virtually certain before an asset can be recognised. Whilst the Group still expects to recover the amounts claimed from third parties that the Group had recognised at the 30 June 2018 balance sheet date, certain claims do not meet the virtually certain criteria of IAS 37. These claims have therefore been de-recognised at the transition date and will be accounted for in future periods, when the uncertainty over their recovery has been removed.

#### C - Derecognition of certain variable revenue items

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". The Group has therefore reviewed its construction contracts and concluded that recognition of some of these items will occur later in the projects.

#### D - Disaggregation of performance obligations

IFRS 15 introduces a clear link between the value provided to the customer and the timing of revenue recognition. One of the principles of the new standard is that individual performance obligations within contracts should be identified and accounted for separately. In the majority of cases, the Group's previous accounting treatment was consistent with the principles of IFRS 15. However, on some contracts in the IT business support area, it has been necessary to disaggregate contracts and performance obligations and account for them separately. This gives rise to changes in the timing of revenue recognition. The Group will potentially recognise lower profits in the early years of these contracts, where there are higher operating costs compared to the level of service delivered to the customer, with a compensating increase in profits in later years. The impact on the Group on transition to IFRS 15 reflects the fact that these contracts are in the latter stages of their contract life cycles at the transition date.

#### E - Capitalised mobilisation costs

IFRS 15 contains new guidance on which pre-contract costs can and can't be capitalised. Some costs that the Group had previously capitalised can no longer be carried forward on the balance sheet and therefore an adjustment has been made to remove these assets. In addition, under IFRS 15 a specific category has been introduced in non-current assets for capitalised mobilisation costs. There have therefore been presentational changes as the amounts that can continue to be capitalised have been reallocated to the new category.

#### F - Other balance sheet adjustments

The introduction of IFRS 15 does not only affect the timing of revenues and profit recognition in the income statement. The new standard introduces 'contract assets' and 'contract liabilities' as new balance sheet categories. There are therefore a number of presentational changes as accrued revenue amounts for work undertaken, but not yet certified/invoiced, have been reclassified as contract assets and amounts received or certified in advance of completing performance obligations have been reclassified as contract liabilities.

Conversely, balances within the IAS 11 related balance sheet headings of 'amounts recoverable on contracts' within inventories and 'construction contract balances' within trade and other payables have been eliminated either through the adoption of the new method of calculating the percentage of completion on construction contracts (which no longer necessitates adjustments to cost of sales) or else by reclassification to more appropriate balance sheet categories, including contract assets and contract liabilities.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 16 Changes in accounting policies continued

### Impact on the results for the year ended 30 June 2019

The tables below summarise the impact of the adoption of IFRS 15 on the Group's consolidated income statement for the year ended 30 June 2019, and the consolidated balance sheet for the year then ended. With the exception of the impact of changes to the income statement, there was no material impact on the Group's consolidated other comprehensive income. There was no material impact on the Group's net cash flows from operating activities, investing activities and financing activities.

### Consolidated income statement – year to 30 June 2019

	Adjustment reference	Amounts without adoption of IFRS 15			Impact of adopting IFRS 15			As reported		
		Before exceptional items £m	Exceptional items (note 3) <sup>1</sup> £m	Total £m	Before exceptional items £m	Exceptional items <sup>1</sup> £m	Total £m	Before exceptional items £m	Exceptional items (note 3) <sup>1</sup> £m	Total £m
<b>Continuing operations</b>										
Group revenue	A,C,D	4,034.3	(15.0)	<b>4,019.3</b>	102.4	-	<b>102.4</b>	4,136.7	(15.0)	<b>4,121.7</b>
Cost of sales	A,B, E	(3,675.9)	(111.2)	<b>(3,787.1)</b>	(77.6)	-	<b>(77.6)</b>	(3,753.5)	(111.2)	<b>(3,864.7)</b>
<b>Gross profit/(loss)</b>		358.4	(126.2)	<b>232.2</b>	24.8	-	<b>24.8</b>	383.2	(126.2)	<b>257.0</b>
Administrative expenses		(289.8)	(214.2)	<b>(504.0)</b>	-	-	-	(289.8)	(214.2)	<b>(504.0)</b>
Share of post-tax results of joint ventures	A	30.7	-	<b>30.7</b>	-	-	-	30.7	-	<b>30.7</b>
Loss on disposal of joint ventures and subsidiaries		-	(0.4)	<b>(0.4)</b>	-	-	-	-	(0.4)	<b>(0.4)</b>
<b>Profit/(loss) from operations</b>		99.3	(340.8)	<b>(241.5)</b>	24.8	-	<b>24.8</b>	124.1	(340.8)	<b>(216.7)</b>
Finance income		0.2	-	<b>0.2</b>	-	-	-	0.2	-	<b>0.2</b>
Finance cost		(26.7)	(1.7)	<b>(28.4)</b>	-	-	-	(26.7)	(1.7)	<b>(28.4)</b>
<b>Profit/(loss) before tax</b>		72.8	(342.5)	<b>(269.7)</b>	24.8	-	<b>24.8</b>	97.6	(342.5)	<b>(244.9)</b>
Taxation	A-E	(16.0)	55.9	<b>39.9</b>	(4.2)	-	<b>(4.2)</b>	(20.2)	55.9	<b>35.7</b>
<b>Profit/(loss) for the year from continuing operations</b>		56.8	(286.6)	<b>(229.8)</b>	20.6	-	<b>20.6</b>	77.4	(286.6)	<b>(209.2)</b>
<b>Discontinued operations</b>										
Profit for the year from discontinued operations		-	-	-	-	-	-	-	-	-
<b>Profit/(loss) for the period</b>		56.8	(286.6)	<b>(229.8)</b>	20.6	-	<b>20.6</b>	77.4	(286.6)	<b>(209.2)</b>
<b>Attributable to:</b>										
Owners of the parent		56.4	(286.6)	<b>(230.2)</b>	20.6	-	<b>20.6</b>	77.0	(286.6)	<b>(209.6)</b>
Non-controlling interests		0.4	-	<b>0.4</b>	-	-	-	0.4	-	<b>0.4</b>
		56.8	(286.6)	<b>(229.8)</b>	20.6	-	<b>20.6</b>	77.4	(286.6)	<b>(209.2)</b>
<b>Earnings per share</b>										
<b>Basic earnings per share</b>										
From continuing operations		42.6p	(216.7)p	<b>(174.1)p</b>	15.6p	-	<b>15.6p</b>	58.2p	(216.7)p	<b>(158.5)p</b>
From discontinued operations		-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>42.6p</b>	<b>(216.7)p</b>	<b>(174.1)p</b>	<b>15.6p</b>	-	<b>15.6p</b>	<b>58.2p</b>	<b>(216.7)p</b>	<b>(158.5)p</b>
<b>Diluted earnings per share</b>										
From continuing operations		42.6p	(216.7)p	<b>(174.1)p</b>	15.6p	-	<b>15.6p</b>	58.2p	(216.7)p	<b>(158.5)p</b>
From discontinued operations		-	-	-	-	-	-	-	-	-
<b>Total</b>		<b>42.6p</b>	<b>(216.7)p</b>	<b>(174.1)p</b>	<b>15.6p</b>	-	<b>15.6p</b>	<b>58.2p</b>	<b>(216.7)p</b>	<b>(158.5)p</b>

<sup>1</sup> Reference to 'Exceptional items' includes exceptional items and amortisation of acquired intangible assets, see page 20.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 16 Changes in accounting policies continued

### Impact on profit for the year

Adjustment	Impact of IFRS 15 £m
A Change in method of calculating the percentage of completion on construction contracts	12.2
B Third party claims	7.3
C Derecognition of certain variable revenue items	4.6
D Disaggregation of performance obligations and other adjustments	3.4
E Capitalised mobilisation costs	(2.7)
	<b>24.8</b>
Tax charge on the above	(4.2)
<b>Total impact on profit for the year</b>	<b>20.6</b>

#### A – Change in the method of calculating the percentage of completion on construction contracts

Additional profit has been recognised in relation to the relative percentage of completion of construction jobs, under the old and new calculation methods, at 30 June 2019 compared with 30 June 2018. The additional profit recognised in the year reflects the fact that the cumulative impact of IFRS 15 compared to the old percentage of completion measurement basis is, on average, less marked at 30 June 2019, than at 30 June 2018, i.e. there has been an acceleration of work when measured on a cost basis compared to the previous, external valuation, basis.

#### B - Third-party claims

One of the third-party claims that was derecognised as an IFRS 15 transitional adjustment, was settled in the year to 30 June 2019. This has resulted in a difference in the timing of the accounting for the outcome of the settlement.

#### C - Derecognition of certain variable revenue items

The small additional credit to the income statement is a result of the timing difference on when certain claims (accounted for as variable consideration) should be recognised under IFRS 15 compared to the previous standards.

#### D - Disaggregation of performance obligations

As described in the transitional adjustments section above, it has been necessary to disaggregate contracts and performance obligations in relation to some contracts in the IT business support area, and account for them separately. This gives rise to changes in the timing of revenue recognition. On these contracts a transitional adjustment has been made to reflect the fact that less revenue and profit would have been recognised in the earlier years of these contracts. Conversely, more profit is recognised in the later years under IFRS 15. The impact on the income statement for the year to 30 June 2019 reflects the fact that these contracts are in the latter stages of their contract life cycles.

#### E – Capitalised mobilisation costs

Some costs that would have been capitalised in the year under the Group's old accounting policy, have been expensed to the Income Statement. The adjustment is net of amortisation charges that would have been charged under the previous policy.

# Notes to the financial statements

Continued

Kier Group plc  
Financial Statements for the year  
ended 30 June 2019

## 16 Changes in accounting policies continued

### Consolidated balance sheet – as at 30 June 2019

	Adjustment reference	Amounts without adoption of IFRS 15 £m	Impact of adopting IFRS 15 £m	As reported £m
<b>Non-current assets</b>				
Intangible assets	E	766.9	(0.2)	<b>766.7</b>
Property, plant and equipment	E	64.5	(7.2)	<b>57.3</b>
Investment in and loans to joint ventures		237.9	-	<b>237.9</b>
Capitalised mobilisation costs	E	-	3.3	<b>3.3</b>
Deferred tax asset	A-E	39.5	8.2	<b>47.7</b>
Contract assets	F	-	25.2	<b>25.2</b>
Trade and other receivables	F	54.2	(25.2)	<b>29.0</b>
Retirement benefit assets		58.4	-	<b>58.4</b>
Other financial assets		22.1	-	<b>22.1</b>
<b>Non-current assets</b>		<b>1,243.5</b>	<b>4.1</b>	<b>1,247.6</b>
<b>Current assets</b>				
Inventories	A,E,F	653.7	(435.8)	<b>217.9</b>
Contract assets	A,F	-	485.2	<b>485.2</b>
Trade and other receivables	F	410.4	(25.0)	<b>385.4</b>
Other current assets		322.8	-	<b>322.8</b>
<b>Current assets</b>		<b>1,386.9</b>	<b>24.4</b>	<b>1,411.3</b>
Assets held for sale as part of a disposal group		14.6	-	<b>14.6</b>
<b>Total assets</b>		<b>2,645.0</b>	<b>28.5</b>	<b>2,673.5</b>
<b>Current liabilities</b>				
Trade and other payables	A,F	(1,408.0)	65.3	<b>(1,342.7)</b>
Contract liabilities	F	-	(134.0)	<b>(134.0)</b>
Other current liabilities		(56.4)	-	<b>(56.4)</b>
<b>Current liabilities</b>		<b>(1,464.4)</b>	<b>(68.7)</b>	<b>(1,533.1)</b>
Liabilities held for sale as part of a disposal group		(1.5)	-	<b>(1.5)</b>
<b>Non-current liabilities</b>		<b>(619.3)</b>	-	<b>(619.3)</b>
<b>Total liabilities</b>		<b>(2,085.2)</b>	<b>(68.7)</b>	<b>(2,153.9)</b>
<b>Net assets</b>		<b>559.8</b>	<b>(40.2)</b>	<b>519.6</b>
<b>Equity</b>				
Retained earnings	A-E	(266.6)	(40.2)	<b>(306.8)</b>
Other equity	A,C	825.9	-	<b>825.9</b>
Equity attributable to owners of the parent		<b>559.3</b>	<b>(40.2)</b>	<b>519.1</b>
Non-controlling interests		0.5	-	<b>0.5</b>
<b>Total equity</b>		<b>559.8</b>	<b>(40.2)</b>	<b>519.6</b>

The areas of the balance sheet impacted by the adoption of IFRS 15 and the nature of the adjustments are consistent with the transitional adjustments noted above.