A STRATEGY FOR THE FUTURE
Kier is a leading UK construction and infrastructure services company.

We provide specialist design and build capabilities. The knowledge, skills and intellectual capital of our people ensure we are able to project manage and integrate all aspects of a project.
Financial highlights

Total Group revenue
£4.5bn
2018: £4.5bn

Total Group revenue – excluding joint ventures
£4.1bn
2018: £4.2bn

(Loss)/profit from operations
£(216.7)m
2018: £134.4m

Profit from operations – before exceptional items\(^1,2\)
£124.1m
2018: £187.0m

Earnings/(losses) per share\(^3\)
(158.5)p
2018: 89.3p

Earnings/per share – before exceptional items\(^1,2,3\)
58.2p
2018: 136.8p

Order book\(^4\)
£9.4bn
2018: £9.8bn

Net debt – 30 June 2019\(^5\)
£(167.2)m
2018: £(185.7)m

Net debt – average\(^5\)
£(422)m
2018: £(375)m

\(^1\) See consolidated income statement on page 112. Exceptional items includes amortisation of acquired intangible assets.
\(^2\) Prior year restated as a result of the rights issue, see note 11 to the consolidated financial statements.
\(^3\) See financial KPIs on page 18. Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSAL Limited (Kier’s Australian Highways business).

Contents

<table>
<thead>
<tr>
<th>Strategic Report</th>
<th>Governance</th>
<th>Financial Statements</th>
<th>Other Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>2 At a glance</td>
<td>48 Corporate Governance Statement</td>
<td>101 Independent auditor’s report</td>
<td>199 Financial record</td>
</tr>
<tr>
<td>4 Chairman’s statement</td>
<td>48 Chairman’s introduction</td>
<td>112 Consolidated income statement</td>
<td>200 Corporate information</td>
</tr>
<tr>
<td>6 Chief Executive’s review</td>
<td>49 Governance in action</td>
<td>113 Consolidated statement of comprehensive income</td>
<td></td>
</tr>
<tr>
<td>12 Value creation model</td>
<td>50 Board statements</td>
<td>114 Consolidated statement of changes in equity</td>
<td></td>
</tr>
<tr>
<td>14 Our markets</td>
<td>52 Leadership</td>
<td>115 Consolidated balance sheet</td>
<td></td>
</tr>
<tr>
<td>18 Key performance indicators</td>
<td>54 Board of Directors</td>
<td>116 Consolidated cash flow statement</td>
<td></td>
</tr>
<tr>
<td>20 Sustainability</td>
<td>56 Effectiveness</td>
<td>117 Notes to the consolidated financial statements</td>
<td></td>
</tr>
<tr>
<td>30 Risk management framework</td>
<td>59 Nomination Committee report</td>
<td>180 Principal operating subsidiaries and business units</td>
<td></td>
</tr>
<tr>
<td>32 Principal risks and uncertainties</td>
<td>62 Accountability</td>
<td>193 Company balance sheet</td>
<td></td>
</tr>
<tr>
<td>38 Business review</td>
<td>64 Risk Management and Audit Committee report</td>
<td>194 Company statement of changes in equity</td>
<td></td>
</tr>
<tr>
<td>41 Financial review</td>
<td>73 Safety, Health and Environment Committee report</td>
<td>195 Notes to the Company financial statements</td>
<td></td>
</tr>
<tr>
<td>78 Directors’ Remuneration Report</td>
<td>75 Relations with shareholders and other stakeholders</td>
<td></td>
<td></td>
</tr>
<tr>
<td>78 Annual statement of the Chair of the Remuneration Committee</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>80 Remuneration at a glance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>83 Annual report on remuneration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>92 Directors’ remuneration policy – summary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>98 Directors’ Report</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100 Statements of Directors’ responsibilities</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Go online to find out more at www.kier.co.uk

Our corporate website has key information covering our capabilities, markets, corporate responsibility and investor relations.
Who we are

At Kier we deliver economic and social infrastructure which is vital to the growth of the UK.

CONSTRUCTION
The UK’s leading regional builder, Kier works on projects of all sizes, complexities and sectors spanning the UK.

REGIONAL BUILDING
A UK leading regional builder with key positions in education, health and numerous public sector frameworks.

MAJOR PROJECTS – BUILDING
The business focuses on key sectors such as commercial, custodial, defence and science.

INTERNATIONAL
Undertaking water, power and transport and engineering projects as well as the construction of public buildings in the Middle East.

HOUSING MAINTENANCE
Providing social housing home repair services to over 200,000 homes a year.

INFRASTRUCTURE SERVICES
With a growing footprint in infrastructure services, we provide both capital projects as well as maintenance of infrastructure assets.

HIGHWAYS
The UK’s leading highways service provider with clients including Highways England as well as local authorities.

UTILITIES
Providing services to the water, gas, power, telecoms and rail sectors through long-term alliance and framework contracts.

MAJOR PROJECTS – INFRASTRUCTURE
Delivering civil engineering projects.

On 17 June 2019, the Group announced it will simplify its portfolio by selling or substantially exiting the following activities. This process is ongoing.

Kier Living
A mixed tenure housebuilder working in joint venture and partnerships with Government, local councils and housing associations.

Property
Providing a range of property solutions including regeneration projects for local authorities and property development schemes.

Facilities Management
Offering a range of hard and soft facilities management services to over 400 buildings across the UK, primarily in the public sector.

Environmental Services
Providing refuse collection services to one million UK homes.
What we deliver

The Group is transitioning the reporting of its activities.

For FY2019, the Group reported by three market segments: Buildings, Infrastructure Services and Developments & Housing. Following the conclusions of the strategic review, the Group is focused on four core businesses: Regional Building, Highways, Utilities and Infrastructure under two market segments: Construction and Infrastructure Services, as shown below. For further information see page 41.

**CONSTRUCTION**
- No 1 regional builder
- >70% of awards on frameworks
- <£10m average project size

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1.86bn</td>
<td>£67.2m</td>
</tr>
</tbody>
</table>

**INFRASTRUCTURE SERVICES**
- No 1 highways maintenance provider
- Long-term alliances
- Delivery of both capital and maintenance projects

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Operating profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>£1.67bn</td>
<td>£56.4m</td>
</tr>
</tbody>
</table>

**Revenue by business**
- Regional Building
- Major Projects – Building
- International
- Housing
- Maintenance

**Revenue by sector**
- Public sector
- Private sector

**DELIVERED IN 2019**
- 200-250+ construction projects
- 199 education projects
- 69 health projects
- 200,000 social housing repairs

**DELIVERED IN 2019**
- 31,000km of roads maintained
- 225km of smart motorways developed
- 20.5m properties provided with water and power
- 440,000+ broadband connections
Introduction
This has been a challenging year for Kier. As a Board, we take our responsibilities to all our stakeholders very seriously, and I want to express my personal regret that we have disappointed this year. During the year we had to revise our forecasts. We have now moved decisively to address the issues which caused us to do so and are in a good position to start the financial year.

As announced on 19 September, having overseen the appointment of a new management team, I have announced my intention to retire as Chairman and will step down from the Board once a successor has been appointed.

Business review
The Group’s revenue was £4.5bn (2018: £4.5bn) and operating profit1 decreased by 34% to £124m (2018: £187m). The Group’s order book2 at 30 June 2019 was £9.4bn (2018: £9.8bn). 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 debt through divestments and cost reduction.

Rights issue
During 2018, the banking sector indicated its intention to reduce its exposure to the construction and related sectors. In addition, the focus on service providers’ balance sheets and the pressure to improve the Group’s supply chain payment terms 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, the Group reported average payment days to its supply chain partners of 41 for H2 FY2019 (H1 FY2019: 57 days).

Future Proofing Kier programme
In 2018, we launched the Future Proofing Kier programme 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. During FY2020, building on this, we will roll-out a culture of Performance Excellence across the Group, which will deliver further efficiencies.

As a result, our focus going forward is on simplifying our business, improving cash generation, and reducing debt through divestments and cost reduction.

We announced the planned sale of Kier Living, our housing development business, and the downsizing of our Property business, as well as the sale of our Facilities Management (FM) business and closure of our loss-making Environmental Services business. We also completed the disposal of Kier Highways Services Australia in the year. We anticipate that these actions will strengthen our balance sheet and reduce both our working capital volatility and cost base.

---

1 Operating profit before exceptional items and amortisation of acquired intangible assets.
2 Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSAs Limited (Kier’s Australian Highways business).
Management changes
In response to these challenges, the Board decided that a fresh strategic approach was needed. Haydn Mursell stepped down as Chief Executive in January 2019. We are very pleased that Andrew Davies joined in April 2019 as Chief Executive. Andrew was previously Chief Executive Officer of Wates Group Limited, the construction, developments and property services group. Prior to leading Wates, Andrew spent over 28 years with BAE Systems plc, undertaking a range of senior operational and corporate roles, including Group Strategy Director and, latterly, Managing Director of the Maritime Division. He is also a non-executive director of Chemring Group PLC.

Upon joining, Andrew conducted an in-depth strategic review of the Group which identified that we need to simplify our portfolio of businesses, improve cash generation and strengthen our balance sheet. Andrew has begun a swift reorganisation of the Group’s businesses, management structure and financial framework, and we are confident that his actions will begin to address our challenges.

In June, we announced that Bev Dew would be stepping down as Group Finance Director by 30 September 2019, following the announcement of our full-year results. We are pleased that Simon Kesterton was appointed Chief Financial Officer Designate in August 2019; Simon will assume the role of Chief Financial Officer when Bev steps down. Simon brings a strong track record in implementing programmes focused on financial management, divestitures and operating performance as Group Finance Director at RPC Group plc. Prior to this, he was Chief Financial Officer, Europe and Chief Strategic Officer at IAC Group, an international supplier of automotive components and systems. He has also held a variety of finance roles at Collins & Aikman and British Federal.

The Board is confident that Andrew and Simon will lead a refreshed management team to deliver enhanced value for all our stakeholders going forward.

Dividend
With our focus on improving balance sheet strength and reducing overall debt levels, the Company has suspended the dividend for FY2019 and FY2020. This will allow the Group to build up its working capital and reduce debt, fundamentally strengthening the business. The Board will keep under review the reintroduction of the dividend.

Safety, health and environment
Our work is often undertaken in hazardous environments, and the safety of our people, our supply chain and our customers is of paramount importance to everyone at Kier, especially the executive management team and the Board.

We are ever mindful that there is always more work we can do to promote a safe working environment for our employees, suppliers and customers. Please see the Safety, Health and Environment Committee report on pages 73 and 74 for more details.

Prompt payment code
Many of our suppliers are long-term partners of Kier and we value their contribution. With an increased focus on payment terms, we were pleased to report in our latest Government submission, a marked improvement in our payment data, with the Group’s aggregate average payment days improving from 57 days to 41 days, and a significant improvement in paying suppliers within 60 days. We are committed to further improvements in our payment practices and are working with both customers and suppliers.

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 for both them and the Group.

Outlook
Our operating businesses proved their resilience in a difficult year for Kier.

We have a new strategic focus under Andrew Davies, Chief Executive, who is leading a fresh management team to deliver the strategic plan to grow our core businesses of Regional Building, Infrastructure, Utilities and Highways. Together, these businesses are expected to deliver long-term, sustainable revenues and margins with a renewed focus on their inherently cash-generative characteristics. We will embed a culture of Performance Excellence with particular focus on cash generation to reduce average month-end net debt and simplify the Group by selling or substantially reducing our activities in selected businesses, including Kier Living, Property, Facilities Management and Environmental Services.

At the close of the next financial year, we expect to have fundamentally restructured the Group with a much-reduced cost base and a simplified portfolio of businesses that can leverage their operational synergies.

Philip Cox CBE
CHAIRMAN
26 September 2019
Chief Executive’s review

A focus on the future

Introduction
It was a genuine privilege to join Kier as Chief Executive in April 2019. I know Kier well as a highly respected competitor, with market leading positions, long-term client relationships and excellent customer service. The Company’s reputation for trust, collaboration and reliability is well established.

Business overview
This has, however, been a difficult year for Kier.

In June 2019, we announced the results of our strategic review, which concluded that the Group’s portfolio of businesses was too diverse. It also needed to increase its focus on cash generation and balance sheet resilience. The allocation of corporate resources did not support growth initiatives effectively, and accountability had become blurred through the organisational structure.

The Group urgently needs to simplify its businesses, improve its capital allocation and reduce its leverage. We are therefore undertaking actions to simplify the Group and address these issues. We are making good progress against these strategic actions, but this has led to our reporting a material number of exceptional charges for the year. The exceptional items led to us reporting a disappointing loss before tax of £245m. The exceptional charges include:

- Costs relating to the preparation for exit or sale of businesses necessitated by the Group’s revision to strategy;
- Restructuring costs reflecting the simplification and smaller scale of the Group;
- Material contract losses principally on the Broadmoor Hospital contract;
- Revision to acquisition and integration provisions following the purchase of the McNicholas business in 2017; and
- Other costs including pensions adjustments.

During FY2019, 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 Kier Living and delays to several transactions in Property affected the results of Developments & Housing.

Attractive markets with strong fundamentals
We operate in business to business (B2B) markets where our capabilities and intellectual property in project management, design, innovation and delivery are highly valued by our customers. Over 70% of our work is based on complex procurement processes and long-term spending frameworks for Government, regulated industries and blue-chip private sector customers. Our well-established positions on these frameworks provide a stable flow of low-risk projects over a long period of five or more years, which underpins the visibility of our businesses.

Kier is a key strategic supplier to Government and has long been the UK’s leading regional builder of medium-scale projects in education, health and community facilities. Britain’s growing population and ageing infrastructure underpin the strong fundamentals in the Group. We continue to win significant projects, with a Buildings order book of £4.1bn, comprised of approximately 250 projects with an average project size of around £8m. The nature of these projects means that they carry less risk than large civil engineering projects and has allowed this business to deliver stable and attractive margins.
In Infrastructure Services, our Highways business is the leading contractor to Highways England, maintaining 31,000km of roads last year. The increasing traffic on the UK’s roads, the new Road Infrastructure Strategy 2 (RIS2) and new technologies all continue to make this an attractive sector for long-term growth.

In Utilities, water, electricity and telecoms are fundamental services upon which the UK population relies. Last year, our Utilities business maintained over 475,000km of water mains, supporting 17m properties.

Our work for power distributors helps to keep the lights on for over 37% of the UK population. The UK’s investment in broadband roll-out is proceeding slowly, but we are well-placed to benefit from any acceleration of the broadband programme. Our Infrastructure Services business has an order book of £5.1bn.

**Strategic focus**

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.

Following the strategic review, we have focused the Group on two key market positions: Construction and Infrastructure Services, as set out on page 3, with a focus on our market-leading businesses: Regional Building, Highways, Utilities and Infrastructure. These are inherently cash-generative businesses, based around long-term frameworks for Government, regulated entities and blue-chip customers, which ensure a stable foundation to our operating framework.

**CONSTRUCTION**

The Construction business covers Regional Building, Major Projects – Building, Housing Maintenance and International. These businesses operate in large and sustainable markets and are principally focused on B2B, Government, regulated and blue-chip clients. A large proportion of contracts are either framework led or contracts with balanced risk profiles. These positions build on the Group’s established presence where our capabilities, knowledge and intellectual capital of our people and resources are valued.

- **Regional Building** – a broad sector spread, undertaking 200-250 projects per annum, with an average contract value of around £8m. More than 70% of work comes from national and local frameworks with the remainder from key client accounts.
- **Major Projects – Building** – covers mechanical and electrical, design and delivery capabilities. Key sectors include commercial, custodial, defence and science.
- **Housing Maintenance** – providing a range of services to principally social housing residents, covering home repairs and fire safety risk assessments.
- **International** – focused on small-scale civil engineering infrastructure projects, principally in Dubai.

**INFRASTRUCTURE SERVICES**

The Group’s presence is focused on capital and maintenance projects covering Highways, Utilities and Major Projects – Infrastructure.

- **Highways** – as a key supplier to Highways England and local authority markets, this position provides a solid base on which to develop further opportunities coming to market.
- **Utilities** – with a presence across the water, gas, power, telecoms and rail sectors and over 3,500 trained employees in a sector with a skills shortage, the Group is well positioned. Specifically, the telecoms sector is set to receive future Government investment as fibre optic broadband is rolled out.
- **Major Projects – Infrastructure** – has an established track record of delivering a small number of complex projects in joint ventures.
Organisation structure

Aligned to the new strategy, a new Executive Committee has been created with a streamlined management structure and clear accountability. We have also made several new appointments in key functional areas such as Commercial, Finance, HR, IT and Transformation.

This will improve accountability, leverage synergies across our businesses and clarify reporting lines to drive the businesses forward. The Executive Committee will be the forum in which the senior line and functional leaders come together to communicate, review and agree on issues and actions of Group-wide significance. In addition, this team will drive the roll-out and implementation of Performance Excellence and take responsibility for Group-wide initiatives. This new streamlined structure will enable us to respond more quickly to customers and create a more agile organisational structure.

Future Proofing Kier programme (FPK)

Last year the FPK programme was launched with the objective of making the Group leaner and more focused on client delivery. As part of the strategic review, we concluded that the pace of delivery had to be accelerated. As part of FPK, approximately 650 people have left the business, primarily in central functions, with a further 550 expected to leave in this financial year. The benefits from FPK will provide net annual sustainable cost savings of approximately £55m from FY2021 onwards.

Performance Excellence

FPK provides a good foundation on which to build an efficient, sustainable cost base for the Group. However, there is much more that we can do. We will instil a culture of Performance Excellence across the Group which will address improvements in how we manage our people, processes, projects and costs. Performance Excellence will create a clear system of accountability, with measurable goals, standardised procedures and a focus on quality, delivery and innovation, which will be implemented, day-in, day-out across the Group.

We need to get back to basics: delivering quality work consistently by leveraging our expertise and experience in our chosen sectors. Over 92% of our customers report that they are satisfied with our work, an increase over 2018.

The Group is a key provider to the public sector.
We need to focus on that customer experience by empowering our people, giving them proper support and appropriate management systems. Performance Excellence depends on understanding our customers’ needs, designing innovative solutions and bringing together the people and resources to ensure quality delivery, as well as discipline in contract management, tendering processes and cash management. This will help us drive value through our order book and our businesses.

**Safety, health and environment**

The safety and wellbeing of our employees and our suppliers is of paramount importance to us. The Group’s overall safety performance has improved year-on-year, continuing the trend of the last few years, although the rate of improvement has slowed recently. One of my first actions as Chief Executive was to declare a Safety Stand Down Day – a compulsory review by all businesses of our safety requirements. It is essential that safety, health and wellbeing remain at the forefront of our business. This year we launched a new campaign to raise awareness of the five safety, health and environmental basics: induction for all; risk assessments; competence and training; point of work risk assessment and safe systems of work.

Our work by its nature has an impact on our local environment, and we seek to minimise that impact. We have put in place a number of measures across our businesses to improve our environmental performance, from improving the fuel efficiency of our fleet to collaborating with suppliers on reducing energy consumption. We continue to monitor and improve in this area and are reviewing our overall strategy to ensure we drive continuous improvement in our environmental performance and carbon footprint.

**Our people**

The success of the Group depends on our people. The skills and commitment of our 19,000 employees and community of 25,000 suppliers are fundamental to our business and, given the last year, it is important we work with them on delivering our new agenda. Employee as well as broader stakeholder communication has been my personal priority since joining the Group. We want to be an employer of choice, attracting and retaining the best talent in our industry. Our employee engagement rate this year was 55% and we aim to improve that through training opportunities. The award-winning Kier initiative, Shaping Your World, promotes careers in the built environment. Kier is a member of the 5% Club, with over 7% of our employees working as apprentices, graduates, sponsored students or 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 building essential infrastructure that benefits so many people in the UK. Our projects deliver significant social, economic and environmental impact as a result of the way we do business. In 2018, Kier was the first construction company in the UK to achieve the Social Value Quality Mark 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 business spend.

Across our operations, a consistent quality of delivery is crucial. Our customers trust us to deliver a wide range of projects, many of them transformational and with significant delivery challenges. During FY2020 a new, clear operational framework will be rolled out across the business under Performance Excellence.

Performance Excellence is a way of working that will help run our business effectively. It is an enduring process and a continuous cycle of improvement, not a one-off programme. From contract delivery to project management, from financial reporting to cash collection, from leadership to people performance, Performance Excellence will establish the policies, process and behaviours needed to be efficient, effective and productive.

Our culture of Performance Excellence has four key pillars.

**People** – focusing on talent management, culture and the development of our people. Our teams bring our projects to life. Our clients have always known Kier people as energetic, knowledgeable experts who can problem solve. We need to make sure all our people have the requisite training, skills and behaviours to do their job.

**Process** – establishing an operational framework, an assurance process and consistent reporting. Our processes will help our people deliver our projects. We are refreshing our operations framework so that our processes are stringently clear to undertake.

**Project Execution** – covering each stage of the contracting process, from tendering to completion of a project. With over 1,200 projects across Kier, our projects are our lifeblood, so we need to be disciplined in our planning and execution of these projects. From risk and contract management to day-to-day compliance and safety onsite, we must be efficient, precise and rigorous in how we manage and deliver our projects.

**Cash Management** – introducing disciplines to manage cash more rigorously across the Group. We are inherently a cash business. We need cash to pay our employees and suppliers, buy goods and materials for our projects, and, in turn, reduce our net debt and strengthen our balance sheet. We need to consistently manage cash well.

These four pillars will underpin our culture of Performance Excellence.
Engagement with stakeholders

We are delivering a fundamental transformation of Kier, to create a Group that will deliver long-term, sustainable profits and cash flows. We are restructuring the Group to focus on core activities and are reducing our cost base. As we do this, we will work to right-size our capital structure, to the benefit of all our stakeholders.

We are also renewing our focus on delivering for our customers and our suppliers. Our clients rely on Kier to deliver and maintain their most critical infrastructure. We will continue to work closely with them to ensure we are delivering the levels of service they expect. At the same time, we will actively work with our supplier base to deliver quality projects safely and will continue to improve our payment terms.

The future

This year has been one of significant challenge for Kier. In my first months, I visited many of our key locations, meeting with clients, leadership teams and many of the dedicated people who work on our sites. I was struck by their professionalism, passion and commitment to delivering quality work for our customers. Kier has a long and successful track record in delivering high-quality projects to our customers through innovation, experience and expertise. Our close relationships with customers and suppliers make Kier a trusted partner. We operate in attractive sectors with favourable drivers, as well as enjoying strong barriers to entry through our positioning on tendering frameworks and complex bidding processes that require scale and expertise.

This year, my focus will be on simplifying the Group, improving cash flow generation and reducing net debt, while improving the Group’s disciplined approach to risk management. This will provide us with a platform for sustainable growth and profit for all our stakeholders.

Outlook

In Buildings, the broader macro-environment, including Brexit, is expected to create market uncertainty which may, in turn, lead to delays in decision-making by clients. Therefore the business does not expect revenue to increase 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. 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.

In Infrastructure Services, the change in the mix of highways 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. 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.

The sale of Kier Living is progressing well. The Property business will re-focus principally on mixed-use urban regeneration 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 safety risk assessment services. The Group will continue to take steps to close the Environmental Services business during FY2020.

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.
The strategy to deliver

Our purpose is to deliver economic and social infrastructure which is vital to the growth of the UK.

**GROUP STRATEGY**

- Focus on Government, regulated and blue-chip client base
- Operate in business to business (B2B) markets
- Contracting through long-term frameworks
- Embed a culture of Performance Excellence

**STRATEGIC ACTIONS**

**SIMPLIFY AND FOCUS**

- Planned exit from Kier Living, FM and Environmental Services businesses
- Clarity of focus – long-term contracts including positions on frameworks and delivering for Government, regulated and blue-chip clients
- New organisation structure implemented

**IMPROVED CASH GENERATION**

- Streamlining of business focus
- Proceeds from sale or exit of businesses
- Future Proofing Kier programme streamlining processes to deliver greater operational efficiencies

**STRENGTHENED BALANCE SHEET**

- Proceeds from the sale of Kier Living and other disposals
- Reduced capital investment in Property business
- Suspension of dividend payments for FY2019 and FY2020

**PERFORMANCE EXCELLENCE**

- Launching a new operational framework to support delivery of Performance Excellence focused on governance, ownership and accountability of core processes
- The four Performance Excellence pillars are: People, Process, Project Execution and Cash Management

**STRATEGIC OUTCOMES**

- A portfolio of complementary businesses: Regional Building, Highways, Utilities, Infrastructure
- Create a cash-generative business able to leverage synergies across core activities
- Deliver long-term sustainable growth, supported by a robust capital structure
- Create a Group fully valued by the market and delivering attractive shareholder returns

**A FOUNDATION OF REFRESHED VALUES**
Our approach

The Group is undertaking a number of strategic actions which provide the foundation for the Kier business model.
## The value we create

### Investors
Deliver shareholder value and sustainable growth

### Clients
Delivering for clients and their customers

### Employees
Engaged and talented employees who we invest in

### Environment
Reducing the emission of greenhouse gases and cutting fossil fuel use

### Supply chain
Being a trusted, reliable partner

### Communities
Contributing to communities and wider society

### The Kier way

- **Clients**
  - Delivering for clients and their customers
  - 92% customer satisfaction rate

- **Employees**
  - Engaged and talented employees who we invest in
  - 55% engagement rate
  - >4 days training per employee

- **Environment**
  - Reducing the emission of greenhouse gases and cutting fossil fuel use
  - 25.3 tCO2e reduction in emissions from fossil fuel derived energy to operate per £ revenue

- **Supply chain**
  - Being a trusted, reliable partner
  - 55% of spend with small and medium-sized enterprises (SMEs) exceeding the Government’s target of 33%

- **Communities**
  - Contributing to communities and wider society
  - £310m of social value generated during 2019
Long-term, strong markets

CONSTRUCTION

Our construction activities cover four Group businesses: Regional Building, Major Projects – Building, Housing Maintenance and International.

UK construction is a large market totalling £65bn including infrastructure, of which the Regional Building business operates in a market totalling £45bn. The scale of the market demonstrates the growth potential.

Austerity, and more recently Brexit, have resulted in slower levels of investment in construction (excluding private house building) over the last two years, albeit our Regional Building business has delivered 10% growth in that period. With a c.5% market share and a focus on sector and key account management, there are opportunities for growth even in a relatively flat overall construction market.

The Construction business has a strong public sector client bias supported by its regional and sector focus. The core sectors of education, health, aviation, defence and industrials deliver c.80% of Kier Construction revenue with education and health having the largest shares, 6% and 3% respectively. In other sectors, Kier holds market shares of below 1%, thereby providing opportunity.

The Group continues to diversify into new sectors with a growing presence in the custodial, heritage and leisure markets.

Across the public and private sectors, over 70% of income in the year was repeat business, being sourced through long-term frameworks which remain the preferred route for public procurement. With Kier being a market leader on both the number of public sector framework agreements and contract awards, there is access to a pipeline of work valued at £15bn per annum across national and regional frameworks. The Group operates with a dedicated framework bidding team ensuring framework opportunities are actively pursued.

Over 80% of Kier Regional Building contracts were secured under negotiated or two stage procurement processes. These factors, alongside the fact that our average contract size is around £8m and that no single sub-sector represents over 17% of turnover, ensure that our delivery and commercial risks are well spread.

Whilst our average contract size is relatively low, the business continues to have the proven ability to deliver major building projects, typically through joint ventures.

Education

Our largest overall sector is education where total spending is estimated by AMA Research, the UK building market research provider, to represent 17% of total UK construction spending.

Against a backdrop of population growth, we retain our leading position in the education sector and are a leading player on the Education and Skills Funding Agency framework. The number of secondary school aged children in England is projected to rise by over 13% over the next five years. Some councils have sought to accommodate the initial rise in pupil numbers through the expansion of existing schools. However, new schools will be required especially in high growth areas such as London and other major metropolitan areas. We have a broadening sub-sector mix in

UK population projections (million)

<table>
<thead>
<tr>
<th>Year</th>
<th>5-19 years old</th>
<th>65 years old and over</th>
</tr>
</thead>
<tbody>
<tr>
<td>2027</td>
<td>12.8</td>
<td>13.0</td>
</tr>
<tr>
<td>2022</td>
<td>12.9</td>
<td>12.2</td>
</tr>
<tr>
<td>2017</td>
<td>12.5</td>
<td>12.3</td>
</tr>
</tbody>
</table>

Source: ONS

Projected growth in pupils in primary and secondary schools (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Primary schools</th>
<th>Secondary schools</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Department of Education
the education sector covering funded schools, schools procured by local authorities through frameworks and the universities and college sectors.

Universities development plans and rising secondary school pupil numbers promise to drive investment in expanded and new higher education and secondary school facilities. Investment in higher education facilities will continue as the competition to attract domestic and overseas students continues.

Health
The Group continues to be the number one builder of health facilities in the UK. It is expected this sector will remain central to public sector spending for many years and forecasts and drivers for future demand remain robust.

The medium-term outlook for health spending is positive. AMA Research highlights that the Government pipeline includes £4.9bn of healthcare capital projects between 2018/19 and 2020/22, with mid-term prospects enhanced by the urgent need for investment across the NHS estate in England to ensure the healthcare infrastructure is fit to deliver new models of integrated care. With a £6bn maintenance backlog, Kier is well placed to deliver on the range of projects that are likely to arise from this demand.

Medium to longer term, the key driver of the need for investment in the health sector is the ageing UK population. Government estimates a growth in the retirement age population particularly the older retired segment, over the next 20 years. Given the level of demand this creates for the NHS, it will also drive the need for further improvements in facilities and increased investment.

Other sectors
The business continues to develop its presence in a number of other sectors including aviation, defence and justice. These are all sectors that continue to receive Government support.

Private sector
Whilst the public sector is vital to our Construction business, representing 75% of turnover in the year, we continue to ensure we retain a sensible exposure to the private sector, offering a means of balancing demand and risk as well as of sharing best practice.

Our private sector work, largely focused around commercial and industrial logistics projects, is heavily focused upon a small number of blue-chip key accounts.

Other
We retain a good Housing Maintenance business which is well positioned to help public and private sector social housing providers. The business, post Grenfell, has developed fire risk safety assessment services principally for the public sector.

However, with further building regulation updates expected this year, additional opportunities are likely to develop.

After operating in a range of overseas markets, the international business is principally focused in Dubai with a refocus on smaller-scale civil engineering infrastructure works where there is a steady stream of opportunities. Demand remains stable in these markets.

### Health sector growth (£m)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2021</td>
<td>1,714</td>
</tr>
<tr>
<td>2020</td>
<td>1,667</td>
</tr>
<tr>
<td>2019</td>
<td>1,439</td>
</tr>
<tr>
<td>2018</td>
<td>1,351</td>
</tr>
</tbody>
</table>

Forecast

Source: ONS
Strategic Report

Our markets / continued

INFRASTRUCTURE SERVICES

The UK market in which our activities are principally conducted is a large market totalling £33bn.

Highways

Kier is the UK’s number one highways maintenance provider. Its biggest client is Highways England, with Kier providing maintenance and capital projects across a range of contracts including smart motorway projects.

In October 2018, Highways England announced its anticipated spending for its second Roads Investment Strategy (RIS2), covering the years from 2020 to 2025. With proposed overall spending of £25.3bn, a 60% increase on RIS1. Whilst there is a short hiatus during the transition from RIS1, RIS2 provides opportunity in this market moving forward.

Kier has typically undertaken a greater proportion of maintenance projects for Highways England. There is increasing recognition from clients and Government that road maintenance is key to the future integrity of the network and that funding for maintenance should not be to the detriment of capital funding.

The delivery of major schemes for Highways England will be managed through the new Regional Delivery Partnership over the short to medium-term, for which Kier is a provider. This will cover most schemes, with a number of projects to be procured over the medium-term through local authorities on the Major Road Network and also through Regional Transport Bodies for growth schemes.

Beyond Highways England, all core clients are in the public sector, with a significant exposure to the local authority market, supporting contracted authorities to maintain their local road network. Kier works with a range of authorities such as Suffolk and Surrey. Despite a lack of local authority funds to maintain current assets, a wide variety of delivery and procurement solutions are under discussion with clients.

It is anticipated that the devolution of funding and decision-making, both locally and regionally, and the establishment of Regional Transport Bodies, Mayoral Authorities and increased collaboration between authorities, will see changes to the delivery and procurement landscape over the next 5 to 10 years. This is expected to see greater local accountability for local and regional road networks.

Highways contracts are long-term contracts which, by their nature, are like frameworks, thereby offering significant pipeline visibility.

Utilities

Kier is a utility infrastructure services provider across the water, energy, telecoms and rail sectors with a market share of between 3–10% across the sub sectors and significant scope to develop further.

We work with regulated clients, with regulators requiring the improvement of customer satisfaction, a reduction of costs and improved environmental impact. This, combined with working with emerging technologies, will drive the need for continued investment in these sectors.

Across the following sub-sectors, we have strong forward visibility of income given over 90% of our work is in long-term alliances and frameworks. We are also able to deliver balanced returns given 85% of current revenue is invested in contracts which are of a collaborative form, with a sharing of risk and reward.

The Internet of Things (IoT) will play a fundamental role in utilities. The increasing convergence in our sectors driven by the creation of IoT infrastructure presents opportunities for significant future growth. Such developments include the introduction of smart asset management; decarbonisation; renewables and energy storage; micro grids; electric vehicle charging; and the connected places, homes and offices to create a smarter, connected UK.

Utility regulatory periods

In December 2018, the Scottish Government laid out its road spending priorities in its 2019/20 Budget, identifying a need for change, highlighted by Audit Scotland’s June 2018 report. This concluded that a new model for highways maintenance needs to be investigated. This provides Kier with an opportunity in Scotland where the Highways business currently has no footprint.
Water
The Asset Management Plan (AMP7) cycle (from 2020 to 2025) presents a significant opportunity for Kier given its experience in this sector. With a drive to reduce leakage from both a sustainability and efficiency perspective, and a requirement to cap and reduce the return on capital employed whilst passing benefits on to the customer. We are working closely with a range of clients to help them plan and deliver their upcoming spending.

Energy
The energy sector is anticipated to see c£16bn of spend in the current regulatory cycle which runs from 2013 to 2023. In addition, climate change challenges will drive investments. Reprocurement for new RIIO-ED2 infrastructure services frameworks will commence in 2021 for contract commencement in April 2023. These will present growth opportunities for additional revenues. Two major investments on the horizon are the move to distributed generation and equipping the country to cope with the switch from internal combustion to electric vehicles. Both will drive significant infrastructure spending. In gas, where we are less prominent, trials are currently planned for domestic hydrogen production, storage and distribution, which will present new opportunities.

Telecoms
The telecoms market totals c.£40bn with major changes underway including the replacement of copper with fibre (with some 90% of the UK still relying on copper to some extent for their broadband), and the introduction of 5G, a technology that relies on super-local relaying of data. These represent new opportunities on top of our core business of maintaining network availability and connecting domestic customers.

Broadband potential

<table>
<thead>
<tr>
<th>Millions of connections</th>
<th>Gigabytes</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>250</td>
</tr>
<tr>
<td>24</td>
<td>200</td>
</tr>
<tr>
<td>18</td>
<td>150</td>
</tr>
<tr>
<td>12</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>50</td>
</tr>
<tr>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

0  50 100 150 200 250
2014 2015 2016 2017 2018

Rail
Kier has operated in the rail sector for many years and, whilst currently a small player, there are a number of investments coming on stream from the latest periodic review, Control Period 6, running from 2019 to 2024 and which has a £42bn committed spend. The sector has a strong focus on the safety of delivery, an area where the Group has a solid track record.

Major Projects – Infrastructure
Our Major Projects – Infrastructure business focuses on the delivery of major infrastructure projects, typically requiring strong civil engineering capabilities. Kier has a track record across a range of projects, often in joint ventures, such as in the nuclear sector (Hinkley Point C), the rail sector (Crossrail and Luton DART), the water sector (Deephams) and the road sector (A13).

The National Infrastructure and Construction Pipeline, excluding investment in highways and buildings, is estimated at around £600bn between now and 2028. A core element of the infrastructure pipeline and a potential backbone for the business in future years is the construction of the High Speed 2 (HS2) rail link, where Kier, in joint venture, is responsible for the delivery of civil engineering works across an 80km section of HS2 between the Chiltern Tunnel and Long Itchington Wood.

Given the scale of individual projects that the business undertakes, clear bidding and delivery risk management disciplines are employed to ensure an appropriate risk and reward, predominantly focused around cost-plus opportunities.
A key part of how we operate is measuring performance. For the last five years, we have measured our performance using a larger set of KPIs which were linked to the Vision 2020 strategy.

Following the strategic review conclusions, we have reviewed our KPIs to ensure there is greater clarity of the metrics and that they reflect the focus and structure of the business moving forward. These measures cover both financial and non-financial metrics.

Financial metrics
This year we have introduced a number of new financial metrics:

- Profit before exceptional items and amortisation rather than underlying profit
- Order book – a measure giving visibility of contract awards
- Average net debt – with one of the strategic priorities focused on reducing net debt, this metric tracks progress
- Free cash flow – a key metric moving forward reflecting greater cash generation.

Non-financial metrics
We have combined our employee retention and engagement commentary into one employee engagement metric and, following changes to the BITC CR index, we have moved to a metric relating to the Group’s social impact, a key measure for our Government and public sector clients. New metrics are:

- Payment performance – with a growing focus on payment practices by Government, this is one of the key data points reported every six months by the Group
- % in energy reduction/tonnes of carbon dioxide – with increased concern about climate change and the FRC’s focus on this metric, this has been added.

All these metrics underpin the rolling out and embedding of the Kier Group strategy and Performance Excellence.

### Financial

<table>
<thead>
<tr>
<th>Key performance indicator</th>
<th>Our performance</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Group revenue – before exceptional items</strong>&lt;sup&gt;1&lt;/sup&gt; (bn)</td>
<td></td>
<td>Group revenue was resilient with over £1.1bn of new awards in the second half of the year</td>
</tr>
<tr>
<td>Revenue for the Group from continuing operations including joint ventures excluding exceptional items</td>
<td>19 4.5</td>
<td></td>
</tr>
<tr>
<td>18 4.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>£4.5bn</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| **Profit from operations – before exceptional items**<sup>2</sup> (m) |                 | Group profit before exceptional items was materially lower reflecting volume and operational issues |
| Operating profit for the year before exceptional items          | 19 124.1        |                                                                           |
| 18 124.1                                                      |                 |                                                                        |
| **£124.1m**                                                   |                 |                                                                        |

| **Earnings per share – before exceptional items**<sup>2</sup> (p) |                 | Group earnings per share before exceptional items was materially lower reflecting volume and operational issues affecting profit |
| Earnings per share for the year generated from operations before exceptional items | 19 58.2         |                                                                           |
| 18 58.2                                                      |                 |                                                                        |
| **58.2p**                                                    |                 |                                                                        |

| **Order book**<sup>4</sup> (bn) |                 | A solid order book reflecting business disposals and contract exits. £1.5bn relates to the HS2 project which is under review |
| Secured and probable future contract revenue not currently recognised in the financial statements | 19 9.4          |                                                                           |
| 18 9.8                                                      |                 |                                                                        |
| **£9.4bn**                                                   |                 |                                                                        |

| **Net debt – average**<sup>5</sup> (m) |                 | Average net debt was higher reflecting net debt being at its highest between September and November 2018, but reducing following the rights issue in December 2018 |
| Average monthly net debt for the year | 19 (422)         |                                                                           |
| 18 (375)                                   |                 |                                                                        |
| **£(422)m**                                 |                 |                                                                        |

| **Cash – free cash flow**<sup>6</sup> |                 | Free cash flow was materially higher reflecting the proceeds of the rights issue received in December 2018 |
| Alternative cash flow measure to evaluate what is available for distribution | 19 137.3        |                                                                           |
| 18 72.9                                    |                 |                                                                        |
| **£137.3m**                                |                 |                                                                        |

### Changes to KPIs in 2019

For the last five years, we have measured our performance using a larger set of KPIs which were linked to the Vision 2020 strategy.

Following the strategic review conclusions, we have reviewed our KPIs to ensure there is greater clarity of the metrics and that they reflect the focus and structure of the business moving forward. These measures cover both financial and non-financial metrics.

Financial metrics
This year we have introduced a number of new financial metrics:

- Profit before exceptional items and amortisation rather than underlying profit
- Order book – a measure giving visibility of contract awards
- Average net debt – with one of the strategic priorities focused on reducing net debt, this metric tracks progress
- Free cash flow – a key metric moving forward reflecting greater cash generation.
## Non-financial

<table>
<thead>
<tr>
<th>Key performance indicator</th>
<th>Our performance</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Safety – Group accident incidence rate (AIR)</strong>&lt;br&gt;Achieve year-on-year improvement in the Group AIR. Remain below the Health and Safety Executive benchmark for the UK</td>
<td>19 &lt;br&gt;18 &lt;br&gt;104 &lt;br&gt;96</td>
<td>After three years of improvement there was a slight increase in the AIR on a like-for-like basis as the rate of improvement slowed. However, the figure remains well below the Health and Safety Executive benchmark</td>
</tr>
<tr>
<td><strong>Customer experience</strong>&lt;br&gt;Deliver a high level of customer satisfaction which is key to supporting sustainable long-term growth across our markets and client base</td>
<td>19 &lt;br&gt;18 &lt;br&gt;92 &lt;br&gt;90</td>
<td>A high level of customer satisfaction continues to be delivered, improving to 92%. The Kier Net Promoter Score, which is based on a client satisfaction score, remains strong at +48 (2018: +49). The number of client surveys completed across the Group totalled 420</td>
</tr>
<tr>
<td><strong>Employee engagement</strong>&lt;br&gt;Achieve a continuous improvement in employee engagement survey score</td>
<td>19 &lt;br&gt;18 &lt;br&gt;55 &lt;br&gt;60</td>
<td>A 5% decline in engagement compared to 2018 in light of the significant change undertaken in the business. This is based on a survey with a 75% participation rate</td>
</tr>
<tr>
<td><strong>Payment performance</strong>&lt;br&gt;Maintain a good relationship with our supply chain partners</td>
<td>19 &lt;br&gt;18 &lt;br&gt;41 &lt;br&gt;57</td>
<td>As reported in the Government Duty to Report on Payment Practices and Reporting portal, the average number of days to pay suppliers has improved for Kier Group with an action plan in place to achieve further improvements</td>
</tr>
<tr>
<td><strong>Social impact</strong>&lt;br&gt;Improve the outcome and community value delivered from projects</td>
<td>19 &lt;br&gt;18 &lt;br&gt;310 &lt;br&gt;517</td>
<td>Kier has invested in training and awareness for our teams on how we improve our recording of social impact data. This has contributed to a significant increase in the positive social impact delivered and value reported</td>
</tr>
<tr>
<td><strong>Environmental responsibility</strong>&lt;br&gt;Reduce our consumption of energy and greenhouse gas emissions per £ revenue</td>
<td>18 &lt;br&gt;17 &lt;br&gt;25.3 tCO₂e &lt;br&gt;28.2 tCO₂e</td>
<td>Kier has delivered steady and consistent reduction in the amount of fossil fuel-derived energy it requires to operate per £ revenue. Our programme is helping to reduce our contribution to climate change, whilst improving our cost of doing business</td>
</tr>
</tbody>
</table>

---

1. See consolidated income statement on page 112. Exceptional items includes amortisation of acquired tangible assets.
2. Prior year re-presented to reflect the change in the Group’s Alternative Performance Measure, see note 5 to the consolidated financial statements.
3. Prior year restated as a result of the rights issue, see note 11 to the consolidated financial statements.
4. Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSA Limited (Kier’s Australian Highways business).
5. See note 20 to the consolidated financial statements.
Positive footprints

Our sustainability activities and non-financial KPIs support our new strategy. We continue to contribute to the communities who work alongside us while respecting the environment in which we operate.

We continue to take responsibility to be good neighbours, contributing to the communities who work alongside us, while respecting the environment by reducing our use of resources and waste. All these activities support our strategy and values.

Resources

To build trust within our markets, we continue to place people at the heart of our operations. This has been particularly important this year following the level of change undertaken in the business. Day-in, day-out we rely on having a healthy, safe and skilled workforce made up of our employees and our supply chain partners. We rely on this extended team to operate our business in a responsible and ethical way, for example minimising the impact of our operations on the environment. We provide our teams with robust management systems, processes, policies and training. In the coming year, a culture of Performance Excellence will be rolled out, providing an enhanced operational framework, ensuring greater consistency of approach and clear ownership and accountability for core processes across the Group.

Relationships

Only by building positive relationships can we deliver some of the largest and most celebrated projects, as well as hundreds of smaller, but equally important, local projects each year.

Key relationships are with clients and customers, our supply chain and joint venture partners, investors, and the communities where we work. We are a strategic supplier to Government.

Responsibility

In each community where we operate, we leave what we call positive footprints, by operating in a way which adds both financial and non-financial value to the local economy. This section of the report focuses on the responsible approach we take on areas of non-financial performance. This activity creates far-reaching benefits. It has an impact on the way we run our business and on our performance, revenue and profit.

We have set ourselves a target to deliver social value equivalent to 10% of Group revenue, a goal we are on track to achieve. Our social value recorded in the year totalled £310m (2018: £157m). This includes measurement of environmental matters and is consistent with Government requirements and recognised methodologies.

We also provide support to a range of organisations including charities who help the most vulnerable in society such as the homeless, long-term unemployed or ex-offenders looking for a route back into work.

Kier is a constituent company of the FTSE4Good index series, which is designed to identify companies that demonstrate strong environmental, social and governance practices measured against globally recognised standards.
Resources

Our people
People are at the heart of our business. We rely on the talents, skills and commitment of more than 19,000 people employed across the breadth of our operations and the 25,000 people employed by subcontractors who go to work for Kier each day. Our supply chain is an extension of our own people, sharing our ways of working, aligning with our values and working to our standards, particularly in the areas of safety, client engagement and quality. We aim to be a trusted and reliable partner to the supply chain.

Our regional network is at the heart of our operation, with a focus on local relationships delivering local projects, backed up by the power of a national organisation with consistent approaches and processes. Our investment in new systems enables us to capture knowledge from across our business, particularly in key areas such as compliance, safety and training. We then share this learning and best practice across the business, which helps deliver a consistent quality of service on projects. This enables us to grow our intellectual property, i.e. our people’s expertise and processes, and leverage the experience and capabilities of our teams.

Health and wellbeing
Nothing is more important to Kier than the mental and physical health and wellbeing of our people. We are rolling out a fully integrated safety-first culture across our business.

We are also tracking the maturity of safety behaviours across our Company. A key element of our drive is strong, visible leadership, where Directors and senior managers set the example of being vigilant and regularly visiting our sites. We have increased the number of visits these colleagues make to our contracts, projects and depots on the frontline to 5,962 (2018: 5,882).

There is far less avoidance of safety, health and environment (SHE), and a definitive shift towards more human focused and integrated ways of working.

Keeping people out of harm’s way is more than just following processes or launching one-off campaigns. This year our main focus has been a campaign to raise awareness of the five SHE basics. Wherever our employees work and whatever they do, we provide them with the time, training and tools to concentrate on these.

### Accident incidence rate

1. Induction for every worker
2. Risk assessment for every task
3. Safe system of work for every medium and high risk task
4. Point of work risk assessment – the last chance to re-assess
5. Training and competence – our licence to operate

On a like-for-like basis, the year-end Group AIR in 2019 was 104, 8% higher than 2018. While this is disappointing, the trend in the average AIR is still reducing. AIR is a measure of accidents leading to more than seven days absence from work. See the Safety, Health and Environment Committee report on pages 73 and 74 for further information on this and key incidents.
We provided 5,203 days of core SHE training to accredited industry standards to our teams. This is over and above the SHE training days delivered at a task and occupational level, for example through toolbox talks.

We are acutely aware of the national rising suicide figures among men, including those working in the construction sector, which has a suicide rate higher than the national average. We take the mental health of our employees seriously and this is reflected in our participation in a number of industry-wide campaigns to help raise awareness of this important issue. We have trained over 550 mental health first aiders, and have introduced a dedicated trauma counselling service, available when incidents occur, and rapid referral to mental health support services.

**Attracting and retaining the best people**

We want to continue to be an employer of choice, attracting and retaining the brightest and the best talent as our business adapts to a new strategic direction.

A crucial part of this is behaving fairly and treating everyone equally because we believe that a diverse workforce makes us stronger and better equipped to meet the challenges of the future.

Striving for gender equality on pay is one element of behaving fairly as a business. The figures in our latest gender pay report showed our median gender pay gap reduced in the 12 months to April 2018. While these figures are encouraging, we continue to work on initiatives to encourage women of all levels to consider a role in Kier.

<table>
<thead>
<tr>
<th>Kier gender pay gap (median)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 20.2%</td>
</tr>
<tr>
<td>2018 17.7%</td>
</tr>
</tbody>
</table>

The figure above shows the median pay gap between males and females at Kier.

**Diversity**

Gender makes up just one part of diversity. We are committed to creating a business which better represents society as a whole, and want to attract more people from ethnically diverse backgrounds at different levels of our organisation. We are also working to tackle wider issues of inclusion.

For the past two years, this focus has been through the Kier Balanced Business Network (BBN), made up of colleagues from all levels across all parts of the business with a passion for improving diversity and inclusion. Recent activity has focused on a campaign called ‘Bring your whole self to work’, which encourages people to be proud of who they are at work, without having to change aspects of themselves or their beliefs.

Mobilised by the BBN, we have reviewed and are rolling out our family-friendly and agile working policies to ensure all employees have the opportunity to request flexibility to balance family life and career progression in a way that works for them.

We have also enhanced maternity pay, offering full pay for the first 20 weeks, and have launched Parental Transition seminars for employees seeking to start or extend their families. During the year we worked with the charity Stonewall to review a number of our policies ensuring we approach our people policies from a gender neutral perspective. We continue to incorporate their valuable feedback across our wider suite of people-related policies.

In January 2019, we published our research report ‘Attracting, retaining and developing a diverse workforce’ and we hosted a panel discussion on this same topic. The event was attended by people from inside and outside our industry. This report can be viewed at [www.kier.co.uk/how/equality-diversity-inclusion/](http://www.kier.co.uk/how/equality-diversity-inclusion/).

**Accelerating leadership for women**

Part of our people strategy is to accelerate the progression of female talent. We have delivered a career development programme with WISE (Women into Science and Engineering) and Skills4UK which has enabled more than 100 women from across the Group to develop the skills they require to progress in their leadership journey.

**Equal opportunities**

In our sector, employing people with disabilities has been viewed as difficult owing to the nature of our work, or else has relied on changes to physical infrastructure or working practices. We are shifting this perception and our Highways business became the first in our sector to be recognised as a Disability Confident Leader in the scheme run by the Department of Work and Pensions.

We are an equal opportunities employer and encourage, whenever practical, the recruitment, training, career development and promotion of colleagues with additional physical or mental needs, including instances of disability occurring during employment.
To enhance our Graduate Development Programme, we will be placing our 2019 graduate intake onto a degree apprenticeship in management, accredited by the ILM, the UK’s leading provider of professional qualifications. This will provide them with the opportunity to gain a professional qualification, leading to accreditation to the relevant professional body, as well as a further degree level qualification, and will open the programme to a wider set of applicants.

This move helps us to use the Apprenticeship Levy in a way which lets students gain the highest possible qualifications, as well as meeting our client requirements.

We have also exercised our right to transfer part of our Apprenticeship Levy surplus to other organisations. By transferring some of our levy to supply chain partners, we enable them to create more apprenticeships, which is mutually beneficial.

Three Kier projects – HS2, Luton Dart and Wellingborough Prison – were this year selected by the Government to receive funding as Construction Skills Hubs. This programme is designed to increase the number of people trained in construction, to help tackle the skills shortage in the sector and help to build the homes and infrastructure needed across the country.

Gender diversity

<table>
<thead>
<tr>
<th>Year</th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>77%</td>
<td>23%</td>
</tr>
<tr>
<td>2018</td>
<td>78%</td>
<td>22%</td>
</tr>
</tbody>
</table>

Ethnic diversity

<table>
<thead>
<tr>
<th>Year</th>
<th>White</th>
<th>BAME</th>
<th>Unknown</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>59%</td>
<td>7%</td>
<td>34%</td>
</tr>
<tr>
<td>2018</td>
<td>60%</td>
<td>5%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Gender diversity by grade

<table>
<thead>
<tr>
<th>Grade</th>
<th>Male 2019</th>
<th>Female 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Senior managers</td>
<td>273</td>
<td>35</td>
</tr>
<tr>
<td>Other</td>
<td>12,156</td>
<td>3,637</td>
</tr>
</tbody>
</table>

* Excluding international employees.

Retention

The retention rate for UK employees is 86% (2018: 89% on a like-for-like basis), reflecting the Future Proofing Kier programme headcount reduction that has taken place this year.

Apprenticeships and graduates

An important part of attracting and retaining the best people is focusing on the training and development required by the next generation to help fill the significant skills gap across our industry. Unlike the trend across the country, the number of apprentices and graduates at Kier has increased to 830 (25.4% female).

Kier is a member of the 5% Club – currently more than 7% of our workforce are apprentices, graduates, sponsored students or in further education.
The award-winning Kier initiative, Shaping Your World, promotes careers in the built environment to the next generation of young people and is now in its third year. Over 500 Kier ambassadors have carried out 390 engagement events, including visits to schools, and nearly 38,000 young people have benefitted from the campaign, which is designed to overcome industry preconceptions. This campaign has been rolled out to include our supply chain partners.

**Responsible business**

We want to ensure all our employees understand what standards and behaviours are expected from them, as well as what they should expect from Kier as their employer. This includes helping them to understand the legal and ethical policies and processes which drive our operations.

To support this, we provide training to all employees on:

- The Kier Code of Conduct – over the last two years over 80% of online employees have undertaken this training.
- Bribery and corruption – over the last three years over 12,500 online employees have undertaken this training.

In both instances, appropriate training has been provided to offline employees.

An area of particular focus has been embedding new ways of working to support the changes arising from the General Data Protection Regulation (GDPR) and Data Protection Act 2018. This included an audit of all related activity within the business to ensure compliance with new regulations, which confirmed our processes were fit for purpose and identified a few areas of continuous improvement for the control framework.

**The issue of modern slavery continues to be a concern within our industry and is the principal direct source of the risk of failing to uphold fundamental human rights.**

We are taking an industry-leading role on this important topic and have been working with the Gangmaster and Labour Abuse Authority (GLAA) to develop greater understanding of the risks posed. We became one of the first signatories to the GLAA Construction Protocol and hosted a number of events to raise awareness with our clients and supply chain.

A secondary concern is the upholding of standards through our own business and our supply chain. In addition to our policy on modern slavery, Kier produces an annual statement which addresses the main risks and issues for our business and the activity being taken to address these.

We continue to raise awareness of the Kier whistle-blowing process including the confidential and independent helpline provided for Kier employees and supply chain partners. During the year, there were 96 issues raised, an increase of 15. This could be partly due to an increased confidence to raise issues on behaviours at work and greater awareness of the issues of modern slavery. All issues were investigated internally with a third resulting in action being taken. No material issues were identified relating to human rights, including modern slavery and human trafficking, or anti-bribery and anti-corruption.

### Supply chain data

- **77%** of our supply chain consists of SMEs
- **£3.6bn** annual spend with the supply chain
- **55%** of our supply chain spend is with SMEs
- **79%** of our invoices are paid within 60 days, an improvement on 65%
Relationships

Long-term relationships

Our business has established market-leading positions through the development of long-term client relationships which deliver excellent client service. These client relationships are underpinned by a systematic programme of engagement. Only through this ongoing collaboration can we continue to evolve as a business, improve our ways of working and continue to meet or exceed the expectations of our clients.

When we developed our strategy for a sustainable business, Responsible Business, Positive Outcomes, we did so in consultation with stakeholders, including clients and shareholders. We have retested the non-financial performance indicators that we identified and find that they continue to be robust. This is an ongoing process, where Kier engages with a range of stakeholders, including Business in the Community and Social Value Business, who provide advice on, and critique, our evolving approach to sustainable business.

Our employees

Our people matter to our business. Our culture is focused on the way they work together and the interface they provide with our clients, as well as with many other stakeholders. To support this, the Group provides information to employees and encourages two-way engagement. We do this through newsletters, webinars, the Group intranet, social media and formal and informal face-to-face meetings.

In 2018, we held the third annual Kier Group employee awards. Nominations for awards were up by 40% on the previous year and the standard of entries was high. We also embarked on a series of employee roadshows, which were attended by 3,306 employees across 22 sessions, in 17 locations over a nine-day period. Attendance at these events increased by 18% on the previous year.

Three quarters of Kier employees participated in the employee engagement survey and 55% (2018: 60%) of respondents reported that they are positively engaged with Kier, despite the significant change that has taken place across the Group.

The Board recognises the important role that it plays in overseeing the Group’s culture and, during the year, how it engages with its workforce. The Board has agreed that three Non-Executive Directors are to be appointed as a ‘designated Non-Executive Director’ to facilitate regular engagement with the workforce. Further information on stakeholder engagement can be found on pages 76 and 77 of the Corporate Governance Statement.

Clients

Our customers want to ensure that we are providing a safe, sustainable working environment and infrastructure for the future.

More than 70% of our business is repeat business which is testimony to the relationships that we have with our clients.

With over 70% of our client base from the public sector, we are aware of their emphasis on key topics such as payment practices, social value and modern methods of construction. As a strategic supplier to Government, we regularly engage with the Cabinet Office as well as a range of Government departments who procure our services.

We have adopted a key account management approach to clients, including our blue-chip clients, ensuring they are aware of the latest developments within the Company. We regularly engage customers in customer satisfaction surveys and formal and informal sessions around key industry topics. This year, our customer satisfaction rate was 92% (2018: 90%).

As an innovative supplier, we maximise opportunities in the pre-construction phases of development to engage with our customers to understand where we can utilise modern methods of construction (MMC.) The Kier ‘Choice Factory’ brochure provides a snap-shot of how we use MMC and the advances we have delivered in off-site construction. We look to use the benefits of MMC wherever possible, recognising the safety, sustainability and cost benefits that can be obtained in the build and full lifecycle of the assets.

We continue to build on the work we are doing with the Construction Innovation Hub, the Catapults, key construction bodies such as i3P, and academia to deliver innovative solutions to support the needs of our customers and their consumers. The Catapult centres are a network of world-leading design and innovation hubs that are helping to transform the UK’s capability for innovation in specific areas and to drive future economic growth.

Supply chain partners

Through our work with the supply chain, which includes many locally based small and medium-sized businesses (SMEs), we contribute to the economic and social life of the communities in which we operate.

The breadth of capabilities in our supply chain are integral to the success of our business. They enable us to operate at scale and with agility, providing specialist skills, capacity and materials. We engage with subcontractor and supplier teams we can confidently rely on across operations. Many of our most fruitful relationships are with SMEs who combine excellent knowledge with a willingness to go that extra mile for our clients. SMEs make up 77% of our supply chain and account for 55% of supply chain spend, significantly above the Government’s 2022 target of 33%.
This year we have reviewed the pre-qualification of subcontractors, enabling them to align to a common set of standards used by three of the UK’s largest accreditation companies. This helps reduce bureaucracy for organisations wishing to join our supply chain, provided they hold a recognised accreditation.

Over the last year, we have been working with Build UK, in collaboration with other main contractors, to develop a standard contractor pre-qualification. The Common Assessment Standard (CAS) allows subcontractors who obtain CAS to work with any main contractor. We are the first main contractor to accept the CAS, leading the way for greater efficiency and reducing cost for the supply chain.

We have put a clear supply chain journey in place, which sets out a path for supply chain partners seeking approval and acceptance as a preferred or strategic partner. Supply chain partners are now able to access the same training resources on topics such as health and safety, anti-bribery and anti-corruption and modern slavery.

Since 2016, we have been working with our supply chain to raise awareness of the issues of modern slavery so that together we can help identify and protect vulnerable workers.

Kier is a strategic supplier to Government. With an increasing emphasis on payment practices through the BEIS Duty to Report on Payment Practices and Reporting (PPR), we continue to make progress on improving our payment performance. We submit data to the Government website on a six-monthly basis. Data for the six months to 31st March 2019 reported Group average payment days to its supply chain partners at 41, a significant reduction from 57 days for the first half of the year. There is a growing focus on the percentage of invoices paid within 60 days, and this is a metric where we have also improved, moving as a Group from 65% to 79%. We have developed an action plan for further improvement.

A summary is available on our website www.kier.co.uk/supply-chain/payment-reporting.

**Infographic:**

**1st UK construction company to be accredited by Social Value Business**

**Responsibility**

**Communities**

Across the entire Kier business, our projects deliver significant positive social, economic and environmental impact as a result of the way we do business.

**Social value tracker (£m)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>310</td>
</tr>
<tr>
<td>2018</td>
<td>157</td>
</tr>
</tbody>
</table>

**Economic**

We choose to operate our business in a way which adds both financial and non-financial value in the communities where we work. For example, we buy most goods and services locally, often from trusted SME supply chain partners. We aim to create jobs and opportunities locally, particularly for SMEs, thereby giving local economies a boost.

In 2018, Kier was the first construction company in the UK to achieve the Social Value Quality Mark – a stamp of approval for businesses that are committed to achieving positive social impact through their work. Awarded by independent social value specialist Social Value Business, the mark recognises those organisations that strive to create social value and impact. We have calculated, based on more detailed examination of specific projects and using government statistics and assumptions, that for every £1 Kier spends, up to £2.65 is generated for the local community, because of the regional focus of our business. This calculation considers not just the money Kier spends on wages, supplies and labour but also the effect of this spending on the local economy.
The Kier Foundation

The Kier Foundation is an independent registered charity for which employees raised £278,563 in the period. The Group supports The Kier Foundation by settling its employee costs and providing an operational budget which facilitates the activities and outcomes of the charity. The Kier Foundation manages the relationship with a chosen corporate charity partner on behalf of Kier. A new partner is chosen every two years, initially via an employee ballot with the final decision by a panel of Kier employees. In the first year of support for the current partner, British Heart Foundation (BHF), a total of £200,000 for research into cardiac arrests was donated from The Kier Foundation. This is the first time BHF has used corporate funding for a specific piece of research. In addition, 2,892 Kier employees have been trained in cardiopulmonary resuscitation or CPR, providing them with a life-long skill which could save a life.

Individual Kier businesses can apply for business match funding of up to £5,000 from The Kier Foundation to undertake projects in the communities where they operate. The number and quality of applications has increased, resulting in £27,478 donated to seven projects across the UK, from Scotland to Cornwall.

Plans have been put in place to work with a social cause, End Youth Homelessness, for a four-year period starting in September 2019, including an initial commitment of £50,000 from The Kier Foundation this year.

Employees are encouraged to fundraise for good causes. The Foundation provides match funding up to £200 twice a year for their charitable efforts. There were 506 successful applications in the year, leading to £110,100 donated to 148 different charities.

The Kier Foundation raises money primarily through the efforts and commitment of employees, including a lottery called the Kier Winners Club. Employees can choose to pay £1 per week to participate. Last year this generated £193,390, split evenly between employees winning the lottery, and good causes supported by The Kier Foundation.

Employees can also give to registered charities via a payroll giving scheme, and are able to contribute their time and enthusiasm to support good causes through our approach to releasing them in work hours to undertake ‘volunteering’ activity. In many cases the provision of pro bono skills and expertise can be more valuable than simply donating cash.

Environment

Our work can impact the environment, both during construction and afterwards. We are reducing the negative impact Kier has on the environment in a number of ways.

One significant element of our approach is to take a more unified view of our environmental strategy, realising that good performance in one area, such as reducing the consumption of construction materials, can have wider benefits such as reducing greenhouse gas emissions associated with the life-cycle of a project. Kier is currently reviewing its overall environmental strategy, with energy and construction material waste being of particular interest owing to the financial benefits this also creates.

Carbon

In 2018, we launched our new energy efficiency strategy – 30 by 30. This committed us to reducing energy consumption by 30%/£ revenue by 2030.

We have delivered 83% of the planned programme of 30 by 30 for the year including:

- Installing 3,000 telematic units in our fleet of light commercial vehicles with data being used to drive fuel efficiency;
- Delivering several energy-efficient LED retrofit projects across our estate;
- Upgrading accommodation on our temporary sites so that cabins are better insulated and have more energy efficient lighting; and
- Working with supply chain partners to drive the use of the correct sized generators, which reduces energy consumption.

As a result of our 30 by 30 programme, we have achieved a carbon reduction target of 10% per annum using 2018 as a baseline.

However, greater focus on the urgent action required to halt climate change is causing us to rethink some of our goals. In parallel with this, changes to our business strategy and structure may also require us to refocus activities.

We will be publishing our revised environmental strategy in 2020, detailing how we plan to improve our energy efficiency, reduce greenhouse gas emissions and reduce costs to the business over the longer term.

Savings achieved from 30 by 30

- Fleet performance – 7%
- LED projects – 7%
- Site accommodation improvements – 18%
- Energy procurement – 22%
- Site generators – 46%
Emission type (by calendar year):

<table>
<thead>
<tr>
<th>Emission type</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1: operation of facilities</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Scope 1: combustion</td>
<td>108,831</td>
<td>101,781</td>
<td>96,733</td>
</tr>
<tr>
<td>Total Scope 1 emissions</td>
<td>108,831</td>
<td>101,781</td>
<td>96,733</td>
</tr>
<tr>
<td>Scope 2: purchased energy</td>
<td>14,467</td>
<td>10,277</td>
<td>10,017</td>
</tr>
<tr>
<td>Scope 2 total emissions</td>
<td>14,467</td>
<td>10,277</td>
<td>10,017</td>
</tr>
<tr>
<td>Total Scope 1 and 2 emissions</td>
<td>123,298</td>
<td>112,058</td>
<td>106,750</td>
</tr>
</tbody>
</table>

Greenhouse gas emissions – intensity ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>CO2e tonnes/£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>31.4</td>
</tr>
<tr>
<td>2017</td>
<td>28.2</td>
</tr>
<tr>
<td>2018</td>
<td>25.3</td>
</tr>
</tbody>
</table>

Waste

Our focus in this area has been to reduce the amount of construction material waste produced per £100k revenue, measured by volume, achieving 6.32m³. This is a slight increase from the previous year. Our future strategy is now under review as we need to continue to reduce the waste of construction materials. This revised approach will reflect the end of life re-use of materials and the part that modern methods of construction can play in delivering more efficient projects.

Non-hazardous construction material waste

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume (m³)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>6</td>
</tr>
<tr>
<td>2019</td>
<td>6.32</td>
</tr>
</tbody>
</table>

Waste reporting comes from a sample representing 45% (2018: 41%) of the Kier Group operations by revenue. Our reporting methodology detailing inclusion/exclusion is provided in our reporting methodology available at www.kier.co.uk/corporateresponsibility/downloads.aspx

Environmental incidents

We capture and monitor data and record both the type and impact of environmental incidents, so we can learn from both successes and failures. We record this as our all environment incidence rate (AEIR). This shows an increase in each of the last two years, from 119, to 148 and 149 this year. This is disappointing as we have missed our target for a 20% year-on-year reduction. Our increased focus on training and raising awareness has led to many more minor events being reported, and this in turn has helped to reduce the risk of more significant events.

This year, we faced one prosecution for damage to tree roots under the Tree Preservation Order (Town and Country Planning Act) which resulted in a £1,000 fine.

Biodiversity

We, along with many industry peers, sponsor the annual CIRIA BIG Biodiversity Challenge and in the past have won a number of awards. This year, 10 projects submitted 14 entries across six categories, providing us with the chance to showcase best practice across the Kier business. We were pleased to win the Pollinator Award for our work to enhance the flower richness of the roadside verges of the A38 in Devon. This project was delivered in partnership with our client, Highways England and partner, ATM.

Water

We are aiming to reduce water consumption by 10% by 2020, and, to help with this, are introducing more robust water monitoring and extending efficiency to our international operations. From 2016 – 2017, we achieved a 6.5% reduction, but consumption has increased slightly this year by 0.7% to 457,157m³.

Improvements are currently being made to the way figures are collated so we can more accurately report on this area of our work.

CO2e = carbon dioxide equivalent

Our reporting of greenhouse gas emissions is for the calendar year 2018. Our dataset covers 93% (2017: 88%) of the Kier Group operations by revenue. Our reporting methodology detailing inclusion/exclusion of joint operations and joint ventures is provided in our reporting methodology available at www.kier.co.uk/corporateresponsibility/downloads.aspx. Scope 1 fugitive emissions are not included. Reporting follows the requirements of the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013 and uses conversion factors published by DEFRA.
### Non-financial information statement

The table below summarises how we comply with non-financial performance reporting requirements. Further details are available in the Corporate Responsibility Update 2019, which can be found on the Kier website. All Kier Group policies are also available on the Kier website: https://www.kier.co.uk/investors/corporate-governance/group-policies/.

<table>
<thead>
<tr>
<th>Reporting parameter</th>
<th>Companies Act requirement</th>
<th>Kier governance</th>
<th>Kier policy / standards</th>
<th>For additional information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anti-corruption and anti-bribery</td>
<td>Yes</td>
<td>Risk Management and Audit Committee</td>
<td>Anti-bribery policy</td>
<td>See pages 64 to 72 CR Update 2019</td>
</tr>
<tr>
<td>Value creation model</td>
<td>Yes</td>
<td>Board</td>
<td>N/A</td>
<td>See pages 12 and 13 CR Update 2019</td>
</tr>
<tr>
<td>Employees</td>
<td>Yes</td>
<td>Board</td>
<td>Business ethics policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Code of Conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Employee privacy policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Equality and diversity</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Safety and health policy statement</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Whistle-blowing policy and procedure</td>
<td></td>
</tr>
<tr>
<td>Environmental matters</td>
<td>Yes</td>
<td>Safety, Health and Environment Committee</td>
<td>Environmental policy statement</td>
<td>CR Update 2019</td>
</tr>
<tr>
<td>Human rights</td>
<td>Yes</td>
<td>Board/Corporate Responsibility Leadership Group</td>
<td>Business ethics policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Code of Conduct</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Employee privacy policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Anti-slavery and human trafficking policy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Responsible procurement policy</td>
<td></td>
</tr>
<tr>
<td>Non-financial performance indicators</td>
<td>Yes</td>
<td>Risk Management and Audit Committee/Board/Corporate Responsibility Leadership Group</td>
<td>All policies in the framework apply</td>
<td>See pages 18 and 19 CR Update 2019</td>
</tr>
<tr>
<td>Principal risks and uncertainties</td>
<td>Yes</td>
<td>Board/Risk Management and Audit Committee</td>
<td>All policies in the framework apply</td>
<td>See pages 30 to 37, 64 to 72</td>
</tr>
<tr>
<td>Social matters</td>
<td>Yes</td>
<td>Board/Corporate Responsibility Leadership Group</td>
<td>Social Impact Strategy</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>The Kier Foundation articles of inclusion</td>
<td>See pages 21 to 26 CR Update 2019</td>
</tr>
</tbody>
</table>
Our risk profile

The management of risk is fundamental to the effective running of the business.

Our risk management framework

Board
Overall responsibility for risk management across the Group. Assesses the principal risks facing the Group and its appetite with respect to those risks

Risk Management and Audit Committee (RMAC)
Responsibility for overseeing the management of the Group’s systems of risk management and internal control

Group Risk Committee
Acts as the link between the business and the Board / the RMAC with respect to risk management

Business management
Oversees the management of risk within the business

Group Risk function
Provides an independent assessment of risk management within the business

Group Tender Risk Committee
Reviews risks arising during tenders for new opportunities and projects

Investment Committee
Reviews risks relating to the Group’s investment decisions

Delegated Authorities
Sets out delegated authorities within the Group

Other Group-wide committees
Review risks associated with specialist areas (for example, IT and SHE)
Introduction
The Group recognises that a robust approach to the management of risk is fundamental to the Group’s operations. During 2019, the Group has continued to develop its systems of risk management and internal control – for example, a revised contract risk assessment governance framework was introduced, a new Group Commercial Director was appointed and the Group Risk Committee was established to provide senior management oversight of risk within the Group.

Oversight
The Board has overall responsibility for the way in which the Group manages risk. The Board determines its appetite with respect to the Group’s principal risks (which are summarised on pages 32 to 37 (inclusive), and, via the RMAC, assesses the effectiveness of the systems of risk management and internal control which are designed to mitigate the impact of those risks on the Group’s operations. Please see ‘Accountability’ on pages 62 and 63 and the Risk Management and Audit Committee report on pages 64 to 72 (inclusive) for further information.

Risk management process
The Group’s Risk and Internal Audit teams work with a network of risk champions, who act as the sponsors for risk management within their respective parts of the business.

Risk appetite
During the year, the Board assessed its risk appetite against a scale of ‘risk averse’, ‘risk balanced’ and ‘risk tolerant’, so as to inform the development of a range of risk parameters within which the business is authorised to operate. Please see ‘Assessment of principal risks and risk appetite’ on page 62 for further details.

Principal areas of focus
In the 2018 Annual Report, we highlighted certain elements of the Group’s risk management framework to be developed during the 2019 financial year. A summary of the progress made is as follows:

<table>
<thead>
<tr>
<th>Area of focus</th>
<th>Examples of progress made in 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Continuing to review the Group’s risk culture</td>
<td>Initial assessment of the Group’s risk culture undertaken</td>
</tr>
<tr>
<td>Sharing best practice risk management across the Group</td>
<td>Risk-based ‘lessons learned’ programme accelerated for priority projects</td>
</tr>
<tr>
<td>Increasing the use of IT in the management of risk</td>
<td>Increased use of survey tools to facilitate data gathering for risk management purposes</td>
</tr>
<tr>
<td>Continuing to assess the risk profile of the Group’s portfolio of contracts</td>
<td>Further embedding of pipeline, contract portfolio and individual contract risk management processes</td>
</tr>
</tbody>
</table>

Principal areas of focus – 2020
The Group keeps its systems of risk management and internal control under review. In the 2020 financial year, the Group’s principal areas of focus, with respect to such systems, are expected to include:
› Continuing to review the Group’s risk maturity and culture;
› Developing risk management processes through the Group Risk Committee; and
› Continuing to identify ways of integrating risk management practices within the operating model.
Introduction
During the year, the Board identified the principal risks and uncertainties facing the Group and assessed its appetite with respect to such risks. Understanding the Group’s risk profile, and how the Group manages risk, is central to the Board’s decision-making process. The following section contains information about the potential impact of the principal risks identified by the Board, the plans to mitigate them and the threats created by them.

Our principal risks

1. Safety, health and sustainability
   - Principal risk: failure to maintain a safe and sustainable environment and prevent a major incident
   - The Group’s operations are inherently complex and potentially hazardous and require the continuous management of safety, health and sustainability issues.
   - Potential impact:
     - An increase in safety or environmental incidents on site;
     - The failure to meet clients’ expectations, adversely affecting the ability to bid for and win new work; and
     - Financial penalties arising from fines, legal action and project delays.

2. Regulation
   - Principal risk: failure to manage increased scrutiny and oversight and/or comply with new regulations
   - The sectors in which the Group operates are subject to increasing scrutiny from stakeholders, oversight from regulators and requirements introduced by new legislation or regulation.
   - Potential impact:
     - Penalties for failing to adhere to legislation or regulation;
     - Increased operating costs of compliance; and
     - The loss of business and resultant reputational damage.
Key changes to the principal risks and uncertainties

The principal risks and uncertainties listed in the 2018 Annual Report have been reviewed to assess their continued relevance in 2019. Two of the 2018 principal risks are no longer considered to be ‘principal’ risks and two principal risks have been introduced.

The new principal risks are:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Reason for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supply chain</td>
<td>The Group’s relationships with its supply chain are of fundamental importance to its ability to deliver projects</td>
</tr>
<tr>
<td>Strategy execution</td>
<td>The delivery of the plans announced on 17 June 2019 is of fundamental importance</td>
</tr>
</tbody>
</table>

The risks which are no longer considered to be ‘principal risks’ are:

<table>
<thead>
<tr>
<th>Risk</th>
<th>Reason for change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation</td>
<td>The risks associated with failure to innovate are now managed at a business level</td>
</tr>
<tr>
<td>Cyber-security</td>
<td>The Group is not believed to be unduly exposed to this risk</td>
</tr>
</tbody>
</table>

The Board’s assessment of risk

The Board’s assessment of the principal risks and uncertainties facing the Group; their potential impact; the mitigating actions proposed in respect of such risks, their change in risk profile during the year (in terms of either impact or likelihood); and an indication of the Board’s risk appetite with respect to each such risk are summarised below. The risks are not listed in any order of priority. Not all the potential impacts of the risks or mitigating actions are listed.

<table>
<thead>
<tr>
<th>Risk</th>
<th>Impact</th>
<th>Likelihood</th>
<th>Risk appetite</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low - the exposure is well understood, with a relatively low cost of mitigation</td>
<td>Improbable – the risk is not foreseen as likely to occur or may occur in exceptional circumstances</td>
<td>Tolerant – the Company has a greater risk appetite where there is a clear opportunity for a greater than normal reward</td>
</tr>
<tr>
<td></td>
<td>Medium – risk may be tolerated provided that the benefits are considered to outweigh the costs</td>
<td>Possible – a relatively infrequent occurrence for the Group</td>
<td>Balanced – the Company has some appetite for risk and balances its mitigation efforts with its view of the potential rewards of an opportunity</td>
</tr>
<tr>
<td></td>
<td>High – risk threatens the viability of the Group or there is a reasonable likelihood of danger to people or material reputational damage</td>
<td>Probable – a relatively frequent occurrence for the Group</td>
<td>Averse – the Company has a very low appetite for risk that is likely to have adverse consequences and aims to eliminate, or substantially reduce, such risks</td>
</tr>
</tbody>
</table>

Mitigating actions

- Continuation of the Group’s SHE behavioural change programme;
- Continued focus on the five basics of SHE risk management; and
- Setting a tone from the top through activities such as senior management visible leadership tours.

- Regular engagement with Government and Government agencies with respect to the Group’s performance;
- Monitoring of, and planning for, the impact of new legislation and regulations; and
- Collaborative engagement with external stakeholders.

<table>
<thead>
<tr>
<th>Impact</th>
<th>Likelihood</th>
<th>Change in impact/likelihood</th>
<th>Board risk appetite</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Decrease in likelihood; no change in impact</td>
<td>A</td>
</tr>
<tr>
<td></td>
<td></td>
<td>No material change in impact or likelihood.</td>
<td>A</td>
</tr>
<tr>
<td>Principal risk</td>
<td>Potential impact</td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| **3  Funding**                                                                | › The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees);  
› Conducting existing business becomes increasingly challenging; and  
› The loss of future business.                                                                                          |
| **4  Market and sector performance**                                         | › A failure of one or more of the Group’s businesses;  
› Increased competition for new work; and  
› A decrease in stakeholder confidence in the Group.                                                                         |
| **5  Operating model**                                                        | › The Group does not meet its profit targets;  
› The Group is unable to tender effectively for new business; and  
› Decisions are not made efficiently and/or effectively.                                                                       |
| **6  Contract management**                                                    | › A failure to meet the Group’s financial targets;  
› The Group incurring losses on individual contracts; and  
› The Group failing to win new work.                                                                                          |
### Mitigating actions

<table>
<thead>
<tr>
<th>Principal risk: failure to maintain adequate funding or liquidity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential impact: The Group requires access to funding and associated facilities (for example, bonding lines) to be able to operate and conduct its business effectively.</td>
</tr>
<tr>
<td>1. The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees); 2. Conducting existing business becomes increasingly challenging; and 3. The loss of future business.</td>
</tr>
<tr>
<td>Mitigating actions: 1. Effective cash forecasting and working capital management; 2. Collaborative engagement with banks, lenders and sureties; and 3. Dispose of non-core businesses to reduce net debt.</td>
</tr>
<tr>
<td>Impact</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>No material change in likelihood¹; increase in impact.</td>
</tr>
</tbody>
</table>

### Principal risk: a general market or sector downturn affects the Group's performance

<p>| Potential impact: The Group's performance is affected by macroeconomic factors which affect UK business in general and/or the markets in which the Group operates. |
| 1. A failure of one or more of the Group's businesses; 2. Increased competition for new work; and 3. A decrease in stakeholder confidence in the Group. |
| Mitigating actions: 1. Evaluate markets, including the impact of macroeconomic factors and the associated market risk of specific events (for example, Brexit); 2. Review the Group’s pipeline of future work to identify market trends and plan accordingly; and 3. Maintain a broad sector focus to mitigate against the decline of a particular sector. |</p>
<table>
<thead>
<tr>
<th>Impact</th>
<th>Likelihood</th>
<th>Change in impact or likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>No material change in impact or likelihood.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Principal risk: the FPK programme does not result in an efficient operating model

<p>| Potential impact: The Group's future performance is in part dependent on the FPK programme delivering significant cost savings and an efficient operating model. |
| 1. The Group does not meet its profit targets; 2. The Group is unable to tender effectively for new business; and 3. Decisions are not made efficiently and/or effectively. |
| Mitigating actions: 1. Close project management of the FPK programme; 2. Effectively communicate the benefits of the FPK programme to maintain its momentum; and 3. Challenge the business to implement material, sustainable change. |</p>
<table>
<thead>
<tr>
<th>Impact</th>
<th>Likelihood</th>
<th>Change in impact; minor decrease in likelihood</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in impact; minor decrease in likelihood.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Principal risk: ineffective contract management leads to losses

<p>| Potential impact: Effective contract management is central to the Group's business model. The Group has a number of large and complex contracts in progress at any one time. Failure to manage the risks associated with these contracts could materially and adversely affect the Group's financial performance. |
| 1. A failure to meet the Group's financial targets; 2. The Group incurring losses on individual contracts; and 3. The Group failing to win new work. |
| Mitigating actions: 1. Identify early warnings of under-performing contracts; 2. Adhere to the Group’s contract risk governance framework; and 3. Timely and accurate reporting of contract performance. |</p>
<table>
<thead>
<tr>
<th>Impact</th>
<th>Likelihood</th>
<th>Change in impact in likelihood²</th>
</tr>
</thead>
<tbody>
<tr>
<td>No material change in impact; increase in likelihood².</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ The Board, however, notes that, over the past year, there has been a change in the sentiment of lenders and other credit institutions towards the construction, infrastructure and support services sectors following a number of high-profile corporate failures in recent years. Lender or credit institution sentiment may affect the Group's access to funding.

² During the year, the Group reported significant contract losses as exceptional items in the financial statements. The Group has taken a number of steps which are designed to reduce the likelihood of the risk occurring, including enhancing its contract risk governance framework, revising its commercial standards and appointing a new Group Commercial Director.
Strategic Report

Principal risks and uncertainties / continued

<table>
<thead>
<tr>
<th>Principal risk</th>
<th>Potential impact</th>
</tr>
</thead>
</table>
| **7 Pre-contract governance** | › Poorly performing contracts, leading to the Group incurring losses;  
› The failure to meet a client’s expectations on cost and quality; and  
› Claims and litigation against the Group. |

**Principal risk:** inadequate pre-contract governance fails to identify contract risk  
Effective pre-contract governance is essential in ensuring that the Group understands the risks associated with its projects and puts in place appropriate mitigation plans.

**8 People**  
**Principal risk:** failure to retain key employees and identify future leaders  
The Group’s employees are critical to its performance. The Group understands the need to identify, retain and motivate people with the right skills, experience and behaviours and to identify tomorrow’s leaders.

**Potential impact:**  
› A loss of experience in the Group and client relationships;  
› A lack of operational leadership, potentially leading to poor project performance; and  
› An erosion of the Group’s employer brand.

**9 Supply chain**  
**Principal risk:** maintain effective working relationships with the supply chain  
The Group relies on its supply chain to deliver its projects. Maintaining close and effective working relationships with members of the supply chain is therefore a priority for the Group.

**Potential impact:**  
› Unavailability of appropriate resources, impacting on project delivery and cost;  
› Use of suppliers from outside the preferred supplier list increases cost and decreases quality; and  
› Poor relationships lead to lack of confidence in the Group and adverse publicity.

**10 Strategy execution**  
**Principal risk:** failure to execute strategy  
The Company recognises the importance of delivering the plans identified in its announcement of 17 June 2019.

**Potential impact:**  
› An adverse impact on the Group’s net debt and liquidity;  
› Without the delivery of the plans, the Group remains a complex investment proposition; and  
› Failure to meet market and investors’ expectations may lead to a decline in investor confidence.

**Brexit**  
The UK is currently expected to leave the EU on 31 October 2019, although the timing remains uncertain. Management established a ‘Brexit taskforce’ which has considered the potential effects of Brexit on the Group. The Group has identified potential risks relating to, for example, the supply chain, the workforce and the supply and cost of materials.

The Group has set up contingency plans in respect of potential risks which have been identified, is monitoring developments and will keep these plans under review. We are working closely with our supply chain at a project level to assess their approach to Brexit and have undertaken scenario planning sessions to develop plans to ensure continuity with respect to potentially critical points of supply. In addition, the Group is working with its employees from EU member states who are looking to continue to live and work in the UK post-Brexit.
### Principal Risk: Inadequate Pre-contract Governance Fails to Identify Contract Risk

- **Impact:** Poorly performing contracts, leading to the Group incurring losses; the failure to meet a client's expectations on cost and quality; and claims and litigation against the Group.

- **Likelihood:** Careful selection of tender opportunities; adhering to the Group’s contract risk governance framework; and continued focus on supply chain procurement.

- **Change in Impact/Likelihood:** Increase in likelihood; no change in impact.

- **Mitigating Actions:**
  - Careful selection of tender opportunities;
  - Adhere to the Group’s contract risk governance framework; and
  - Continued focus on supply chain procurement.

### Principal Risk: Failure to Retain Key Employees and Identify Future Leaders

- **Impact:** A loss of experience in the Group and client relationships; a lack of operational leadership, potentially leading to poor project performance; and an erosion of the Group’s employer brand.

- **Likelihood:** Focus on skills development and retention plans for the talent pipeline; creating an effective, inclusive work environment through our Performance Excellence culture; and clear and effective communication with the workforce.

- **Change in Impact/Likelihood:** Minor increase in likelihood; increase in impact.

- **Mitigating Actions:**
  - Focus on skills development and retention plans for the talent pipeline;
  - Create an effective, inclusive work environment through our Performance Excellence culture; and
  - Clear and effective communication with the workforce.

### Principal Risk: Maintain Effective Working Relationships with the Supply Chain

- **Impact:** Unavailability of appropriate resources, impacting on project delivery and cost; use of suppliers from outside the preferred supplier list increases cost and decreases quality; and poor relationships lead to lack of confidence in the Group and adverse publicity.

- **Likelihood:** Develop long-term relationships with critical subcontractors; continuing to reduce subcontractor payment terms; and reviewing the supply chain to ensure alternative delivery mechanisms are available and appropriate contingencies are in place.

- **Change in Impact/Likelihood:** New principal risk.

- **Mitigating Actions:**
  - Develop long-term relationships with critical subcontractors;
  - Continue to reduce subcontractor payment terms; and
  - Review the supply chain to ensure alternative delivery mechanisms are available and appropriate contingencies are in place.

### Principal Risk: Failure to Execute Strategy

- **Impact:** An adverse impact on the Group’s net debt and liquidity; without the delivery of the plans, the Group remains a complex investment proposition; and failure to meet market and investors’ expectations may lead to a decline in investor confidence.

- **Likelihood:** Focus from all stakeholders on driving forward the disposal programme; effective engagement with key external parties including credit institutions; and communication of progress of implementation of the plans.

- **Change in Impact/Likelihood:** New principal risk.

- **Mitigating Actions:**
  - Focus from all stakeholders on driving forward the disposal programme;
  - Effective engagement with key external parties including credit institutions; and
  - Communication of progress of implementation of the plans.
For FY2019, the Group reported by three market segments: Buildings, Infrastructure Services and Developments & Housing. Following the conclusions of the strategic review, the Group is focused on four core businesses: Regional Building, Highways, Utilities and Infrastructure under two market segments: Construction and Infrastructure Services as shown below. For further information see page 41.

**Buildings**

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 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 1,000th 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 £23.1m 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.

---

1. Operating profit before exceptional items and amortisation of acquired intangible assets.
Revenue in Infrastructure Services decreased by 4% to £1,671m (2018: £1,733m). Profit before exceptional costs 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.

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
Revenues in Developments & Housing decreased by 6% to £940m (2018: £1,002m), with profit before exceptionals1 of £56m (2018: £72m). As a result of the decisions to sell Residential and to seek options to accelerate the release of capital from our Property business, the Group has recorded an impairment charge of 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.

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 £103.8m in the financial statements.

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 regeneration 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.

1 Operating profit before exceptional items and amortisation of acquired intangible assets.
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. In addition, the focus on service providers’ balance sheets increased and there was an increasing pressure to improve the speed of 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: 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.

<table>
<thead>
<tr>
<th></th>
<th>2019 Year ended 30 June</th>
<th>2018 Year ended 30 June</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group revenue¹</td>
<td>£4.5bn</td>
<td>£4.5bn</td>
<td>0</td>
</tr>
<tr>
<td>– Excluding joint ventures</td>
<td>£4.1bn</td>
<td>£4.2bn</td>
<td>-2</td>
</tr>
<tr>
<td>Profit/(loss) from operations²</td>
<td>£(216.7)m</td>
<td>£134.4m</td>
<td>-261</td>
</tr>
<tr>
<td>– Before exceptionals²</td>
<td>£124.1m</td>
<td>£187.0m</td>
<td>-34</td>
</tr>
<tr>
<td>Earnings/(losses) per share¹,³</td>
<td>(158.5)p</td>
<td>89.3p</td>
<td>-277</td>
</tr>
<tr>
<td>– Before exceptionals²</td>
<td>58.2p</td>
<td>136.8p</td>
<td>-57</td>
</tr>
<tr>
<td>Net debt⁴</td>
<td>£(167.2)m</td>
<td>£(185.7)m</td>
<td>-10</td>
</tr>
<tr>
<td>– At 30 June</td>
<td>£(167.2)m</td>
<td>£(185.7)m</td>
<td>-10</td>
</tr>
<tr>
<td>– Average for the year</td>
<td>£(422)m</td>
<td>£(375)m</td>
<td>+12</td>
</tr>
<tr>
<td>Order book⁵</td>
<td>£9.4bn</td>
<td>£9.8bn</td>
<td>-4</td>
</tr>
</tbody>
</table>

¹ See consolidated income statement on page 112. Exceptional items include amortisation of acquired intangible assets.
² Prior year re-presented to reflect the change in the Group’s Alternative Performance Measure, see note 5 to the consolidated financial statements.
³ Prior year restated as a result of the rights issue, see note 11 to the consolidated financial statements.
⁴ See note 20 to the consolidated financial statements.
⁵ See Financial KPIs on page 18. Excluding HS2: £7.9bn (2018: £8.7bn). FY2018 restated to exclude £0.4m relating to the sale of KHSA Limited (Kier’s Australian Highways business).
Financial performance before exceptional items

Revenue
The Group’s revenues, including its share of joint ventures (JVs), 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. Infrastructure Services turnover of £1.671m (2018: £1.733m) has benefited from increased activity in the year in respect of its Highways business, notably in respect of the capital works programmes for Highways England. Within the Utilities business, our continuing robust order book of work in the regulated utilities sectors of water, gas and power distribution compensated for volume volatility in telecoms. Infrastructure capital works, including Crossrail, Hinkley Point C and HS2, contributed to broadly stable volumes in the year. The Australian highways business, disposed of in December 2018, contributed £39m (2018: £114m) of volume in the year.

Overall revenue in the Buildings division of £1.883m (2018: £1.778m) was driven by continued strong growth in the UK Regional Building business where average project size of £8m was in line with prior years. Projects won on frameworks under lower risk standard terms and conditions continued to provide around 65% of the volume. The Group’s Facilities Management (FM) business substantially reduced in scale during the year as competitive pressures in this market drove a curtailment of bidding activity and the exit of seven contracts, representing around 8% of the portfolio in the period. The Buildings business also includes the balance of the Group’s international operations, principally based in Dubai, where volumes have stabilised after increased bidding disciplines were imposed in 2018.

Volumes in Developments & Housing of £940m continue to reflect the move to JV structures with £358m contributed through JVs compared to £273m in the prior year. Whilst unit completions within the Residential business of 1,926 (2018: 2,042) were down year-on-year overall volumes were supported by an increase in average selling price to £194k (2018: £183k). In the Property business, 24 projects completed in the year (2018: 32), driving overall profit of £29.7m (2018: £34m). This reflected a reduction in capital invested over the last 18 months as the Group’s available funding has been significantly reduced. The Group has agreed an exit of its last material waste collection contract and will exit this sector in 2020. Housing Maintenance has seen reduced volumes as delays in the publication of new building regulations and public sector insourcing have impacted the sector.

Operating profit
Profit before exceptional items1 decreased to £124m (2018: £187m).

Profits in Infrastructure Services were £56m (2018: £95m) representing an operating margin of 3.4% (2018: 5.5%). The operating margin decline reflected the mix effect of increased volumes in our capital works divisions combined with reduced turnover in both of the higher margin Utilities and Highways maintenance businesses. In addition to the above, material provisions have been recognised on the Group’s Mining operations in Scotland which were previously reported as non-underlying.

The Buildings business reported operating profitability of £62m (2018: £55m). This was 12.7% up on the prior year reflecting the continuing strength of the Regional Building business and the return to profitability of the smaller international operation based in Dubai.

1 Profit before exceptional items and amortisation of acquired intangible assets – the Group’s Alternative Performance Measure.
Exceptional charges (including amortisation of acquired intangible assets)

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

Amortisation of acquired intangible assets (£24.8m)
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 the Residential business and recognised a non-cash charge of £50m;
- Previously capitalised software assets totalling £7m will no longer be utilised and have been disposed;
- The Group has agreed to exit a series of contracts in Facilities Management at a cost of £23m. Within Environmental Services, a provision of £27m has been made on the Cheshire West and Chester (CWaC) contract, representing the value of future payments to be paid to the client from FY2020 to FY2026; and
- A cost of £8m has been incurred in relation to the disposal of certain businesses and a fair value charge of £8m has also been recognised. The businesses sold in the year generated a cash inflow of £28m. These included the Group’s share of its Australian Highways joint venture (KHSA Limited) to Downer Group, the pensions administration business and the 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 a 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 £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, £26m was committed but accrued at 30 June 2019 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 expensed 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 cash flows 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 from FPK have further made positive contributions to the Group’s net debt position.

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

Group net debt (£m)

<table>
<thead>
<tr>
<th></th>
<th>June</th>
<th>September</th>
<th>December</th>
<th>March</th>
<th>June</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY18</td>
<td>(700)</td>
<td>(600)</td>
<td>(500)</td>
<td>(400)</td>
<td>(300)</td>
</tr>
<tr>
<td>FY19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

 FY19 net debt  ● FY18 net debt
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 £537m (2018: £560m). Disposals of businesses during FY2019 resulted in a reduction in goodwill of £11m.

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 the Residential business.

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 schemes’ 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 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 FY2019 is £20.6m higher, net of tax, than it would have been under previous accounting standards.

Cash performance (£m)

<table>
<thead>
<tr>
<th></th>
<th>June 2018</th>
<th>Operating cash flows</th>
<th>Working capital movement</th>
<th>Capex</th>
<th>Exceptionals</th>
<th>Pension, interest, tax and other</th>
<th>Discretionary investment in Property &amp; Residential</th>
<th>Dividends</th>
<th>Rights issue</th>
<th>June 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>net debt</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0</td>
<td>178</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(50)</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(100)</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(150)</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(200)</td>
<td>250</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(250)</td>
<td>(167)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(300)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(350)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(400)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(450)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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 raising a number of points on the Company’s 2017 Annual Report. Details regarding the FRC’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 FRC 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-emption 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. The Company acknowledges, however, that this is an area of significant accounting judgement and, in agreement with its joint venture partners, has amended the relevant agreements to remove these pre-emption rights.

Further details relating to the engagement with the FRC 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, is disclosed in note 1 to the 2019 financial statements (‘Significant accounting policies’) on page 118.

Treasury facilities
Bank finance
The Group has committed debt facilities of £922m with a further £20m of uncommitted overdrafts (see note 28 on page 174). 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 Residential businesses 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) (see note 23 on page 164). The Company plans to reduce further its use of KEPS during FY2020.

Maturity of committed facilities (£m)

<table>
<thead>
<tr>
<th></th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>USPP &amp; Schuldschein</td>
<td>0</td>
<td>200</td>
<td>600</td>
<td>400</td>
<td>200</td>
<td>0</td>
</tr>
<tr>
<td>RCF</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Kier Group plc | Report and Accounts 2019 45
Leasing
At 30 June 2019, the Group had £3.1m (2018: £7.1m) of finance lease obligations.

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 re-equipment in average month-end net debt.

As at 26 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. Noting that the Group has £121.8m net current liabilities as at 30 June 2019, the Group has at the balance sheet date undrawn committed banking facilities of £440.7m that could be called upon as cash to increase its net current assets.

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 cash flow 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. The going concern statement is set out on page 50. Further details of the review process undertaken to support the going concern statement are set out on page 67.

Viability statement
Assessment period
Consistent with the practice of previous years, the Directors have assessed the prospects of the Group over a period of three years from 30 June 2019, taking account of its current position and the potential impact of the Group’s principal risks and uncertainties (the PRUs) set out on pages 32 to 37 (inclusive) and certain other risks referred to below. The Directors have identified a three-year period as being a period over which they believe they are able to forecast the Group’s performance with reasonable certainty, principally because:

- the tender process and delivery programme for a number of the Group’s projects can, together, take a period of up to approximately three years;
- the visibility of the Group’s secured work and bidding opportunities can reasonably be assessed over a three-year period; and
- the Group’s internal forecasting covers a three-year period.

Assessment process
The work required to support the viability statement was undertaken by management, who appointed external advisers to assist with respect to certain elements of that work. The Board noted the following key elements of the assessment process:

- the key assumptions in the model used as the basis of the assessment (please see ‘Key assumptions’ on page 47);
- the consideration of the Group’s current financial position and future prospects, the Group’s strategy, the PRUs and the mitigation of the PRUs;
- a review of certain other risks relating to the Group, including macro-economic and political risks affecting the UK economy, including Brexit, and risks relating to sectoral trading, pension, banking facilities, systemic margin erosion, strategy execution, the supply chain and certain project-specific risks; and
- the outcome of the stress-testing of the model (please see ‘Stress-testing’ on page 47).
**Key assumptions**
The key assumptions within the model used to support the viability statement include:

- the implementation of the conclusions of the strategic review announced in June 2019, including the sale of the Residential business and the reduction in capital associated with, or sale of, the Property business;
- organic revenue movements supported by market trends, known public expenditure programmes, such as HS2 in Infrastructure, RIS2 in Highways and AMP7 in Utilities, and increased cross-selling into the Group’s customer base;
- margin improvement driven by the FPK programme;
- no payment of dividends over the three-year period;
- following the scheduled repayment of certain tranches of the Schuldschein and the US private placements of notes, no replacement for such financing.

**Stress-testing**
Management reassessed the financial impact of a number of severe but plausible ‘downside’ scenarios, including:

- a failure to sell the Residential business;
- loss-making contracts having a significant impact on the Group’s reported profit and cash over the three-year period;
- a significant reduction in the Group’s turnover as a result of, for example, Buildings’ turnover decreasing due to a reduction in market confidence or reduced bonding facilities and a delay in or withdrawals of certain major programmes, such as HS2;
- payment terms across the Group tightening over the 2020, 2021 and 2022 financial years; and
- a significant reduction in the Group’s supply chain finance scheme.

The impact of Brexit was included within the scenarios modelled above. These scenarios reflect the PRUs which are considered likely to have a direct impact on the Group’s operations if not managed or mitigated effectively, including the failure to execute the Group’s strategy, the failure to manage contracts effectively, including as a result of failing to maintain effective relationships with the supply chain, a decline in the Group’s markets and a decrease in the Group’s access to funding. The results of the stress-testing, including a combination of the individual scenarios, demonstrated that, due to the Group’s forecast cash generation and access to committed funds, it would be able to meet its debt facility covenant requirements in each scenario.

The key mitigating actions which are considered to be available in the downside scenarios include:

- overhead and cost reduction programmes delivering additional savings over the three-year period;
- capital expenditure being reduced significantly over the three-year period;
- the sale of other non-core businesses; and
- further reducing investment in Property and Residential.

**Viability statement**
The viability statement, which is made on the basis of the work which is summarised above, is set out on page 50.

Bev Dew  
FINANCE DIRECTOR  
26 September 2019

This Strategic Report on pages 1 to 47 (inclusive) was approved by the Board and signed on its behalf by:

Andrew Davies  
Chief Executive  
26 September 2019

Bev Dew  
Finance Director  
26 September 2019