Kier Group

Results for the six months ended 31 December 2019

5 March 2020
Andrew Davies
Chief Executive
## Agenda

<table>
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<th>Overview</th>
<th>Andrew Davies, Chief Executive</th>
</tr>
</thead>
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<td>Financial review</td>
<td>Simon Kesterton, Chief Financial Officer</td>
</tr>
<tr>
<td>Strategic progress and outlook</td>
<td>Andrew Davies, Chief Executive</td>
</tr>
</tbody>
</table>
Overview

- Challenging market conditions - revenue down 9%
- Decisive management actions resulting in operating profit growing 3.4% on a LFL basis to £47m *
- Net debt in line with expectations at £242m
- Kier Living: new management team in place and sale is progressing
- Order book of £8bn

* Before IFRS16 benefit of £3m
Strategic Review: Building firm foundations

Focus & Governance

➢ New Chairman and Chief Financial Officer
➢ Strengthened Executive:
   ▪ New Construction and Highways Group Managing Directors
   ▪ New HR, IT, Procurement and Commercial directors
➢ Focus on four Core businesses
➢ Headcount of 1,000 had left by 31 December 2019, with 1,222 left to date
➢ Resetting Group culture

Operational change

➢ Contract exits in Environmental Services and Facilities Management
   ▪ On track to have substantially exited both businesses by 30 June
➢ Ongoing release of capital from the Property business
   ▪ Invested capital £168m
   ▪ £16m released in period
➢ Outsourcing of IT and Fleet complete
➢ Kier Living: new management and sale is progressing
Refreshed executive team

Andrew Davies
Chief Executive

Hugh Raven
General Counsel & Company Secretary

John Edwards
Safety, Health, Environment & Assurance Director

Mark Pengelly
Group Managing Director Infrastructure

Barry McNicholas
Group Managing Director Utilities

Helen Redfern
Group HR Director

Simon Kesterton
Chief Financial Officer

Liam Cummins
Group Managing Director Construction

Jamie McKechnie
Group Procurement Director

Nicola Hindle
Group Managing Director Highways

Phil Morris
Chief Transformation Officer IT

1st May

Existing team
Promotion
New Hire
Financial update

Simon Kesterton, Chief Financial Officer
## Financial summary – continuing operations

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 / 20</th>
<th>H1 2018 / 19</th>
<th>FY 2018 / 19</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>%</td>
<td>£m</td>
</tr>
<tr>
<td>Revenue</td>
<td>1,866</td>
<td>2,053</td>
<td>(9.1)%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>46.7</td>
<td>2.5</td>
<td>41.9</td>
</tr>
<tr>
<td>Interest charge</td>
<td>(16.0)</td>
<td>(11.7)</td>
<td>(36.8)%</td>
</tr>
<tr>
<td>Profit before tax</td>
<td>30.7</td>
<td>1.6</td>
<td>30.2</td>
</tr>
<tr>
<td>Exceptional items</td>
<td>(59.3)</td>
<td>(61.6)</td>
<td>3.7%</td>
</tr>
<tr>
<td>Amortisation of intangible contract rights and exceptional net financing costs</td>
<td>(12.6)</td>
<td>(13.9)</td>
<td>9.4%</td>
</tr>
<tr>
<td>Taxation</td>
<td>5.4</td>
<td>5.3</td>
<td>1.9%</td>
</tr>
<tr>
<td>(Loss) after tax</td>
<td>(35.8)</td>
<td>(40.0)</td>
<td>10.5%</td>
</tr>
<tr>
<td>Adjusted basic earnings per share</td>
<td>15.0p</td>
<td>21.4p</td>
<td>(29.9)%</td>
</tr>
<tr>
<td>Statutory earning per share</td>
<td>(22.1)p</td>
<td>(38.4)p</td>
<td>42.4%</td>
</tr>
<tr>
<td>Net debt</td>
<td>242.5</td>
<td>180.5</td>
<td>(34.3)%</td>
</tr>
<tr>
<td>Average month end net debt</td>
<td>395</td>
<td>430</td>
<td>8.1%</td>
</tr>
</tbody>
</table>
## Continuing operations revenue bridge (£m)

<table>
<thead>
<tr>
<th></th>
<th>H1 2019</th>
<th>Construction</th>
<th>Infrastructure Services</th>
<th>Strategic exits</th>
<th>Property</th>
<th>Revenue H1 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue H1 2019</td>
<td>2,053</td>
<td>(64)</td>
<td>(87)</td>
<td>(18)</td>
<td>(18)</td>
<td>1,866</td>
</tr>
</tbody>
</table>

Revenue H1 2019: £2,053m

Construction: (64) m

Infrastructure Services: (87) m

Strategic exits: (18) m

Property: (18) m

Revenue H1 2020: £1,866m
Continuing operations profit bridge (£m)

- Operating profit H1 2019: 41.9
- IFRS16: 3.4
- Volume / price / mix: (23.0)
- Property: (7.9)
- Inflation: (1.2)
- Management actions: 33.5
- Operating profit H1 2020: 46.7
## Exceptional items – continuing operations

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 / 20</th>
<th>H1 2018 / 19</th>
<th>FY 2018 / 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous acquisition costs</td>
<td>3.1</td>
<td>(0.1)</td>
<td>29.3</td>
</tr>
<tr>
<td>Business divestment related expenditure</td>
<td>7.4</td>
<td>26.9</td>
<td>120.4</td>
</tr>
<tr>
<td>Cost saving programmes</td>
<td>48.8</td>
<td>-</td>
<td>56.1</td>
</tr>
<tr>
<td>Exceptional contract losses</td>
<td>-</td>
<td>28.7</td>
<td>49.9</td>
</tr>
<tr>
<td>Amortisation</td>
<td>11.8</td>
<td>12.8</td>
<td>24.8</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>6.1</td>
<td>8.7</td>
</tr>
<tr>
<td><strong>Total operating exceptional items</strong></td>
<td><strong>71.1</strong></td>
<td><strong>74.4</strong></td>
<td><strong>289.2</strong></td>
</tr>
<tr>
<td>Finance costs</td>
<td>0.8</td>
<td>1.1</td>
<td>1.7</td>
</tr>
<tr>
<td><strong>Total exceptional items before tax</strong></td>
<td><strong>71.9</strong></td>
<td><strong>75.5</strong></td>
<td><strong>290.9</strong></td>
</tr>
</tbody>
</table>
Cost saving programmes; one-off costs to realise future savings

<table>
<thead>
<tr>
<th>£million</th>
<th>H1 2019 / 20</th>
<th>H1 2018 / 19</th>
<th>FY 2018 / 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Redundancy costs</td>
<td>16.8</td>
<td>-</td>
<td>38.4</td>
</tr>
<tr>
<td>Professional advisor fees</td>
<td>17.2</td>
<td>-</td>
<td>9.7</td>
</tr>
<tr>
<td>Lease impairments (June 2019: onerous lease)</td>
<td>10.1</td>
<td>-</td>
<td>4.4</td>
</tr>
<tr>
<td>Costs in preparation for outsourcing arrangements</td>
<td>3.8</td>
<td>-</td>
<td>3.6</td>
</tr>
<tr>
<td>Other</td>
<td>0.9</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cost saving programmes</strong></td>
<td><strong>48.8</strong></td>
<td><strong>-</strong></td>
<td><strong>56.1</strong></td>
</tr>
</tbody>
</table>

**FY 2020/21 run rate cost savings**

<table>
<thead>
<tr>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages &amp; Salary</td>
</tr>
<tr>
<td>Outsourcing</td>
</tr>
<tr>
<td>Footprint</td>
</tr>
<tr>
<td><strong>Total (at least)</strong></td>
</tr>
</tbody>
</table>
### Underlying cash generation – continuing businesses

<table>
<thead>
<tr>
<th>£million</th>
<th>H1 2019 / 20</th>
<th>H1 2018 / 19</th>
<th>FY 2018 / 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted EBITDA</td>
<td>54.8</td>
<td>61.1</td>
<td>115.1</td>
</tr>
<tr>
<td>IFRS 16¹</td>
<td>(4.3)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Working capital</td>
<td>(75.7)</td>
<td>(182.6)</td>
<td>(126.7)</td>
</tr>
<tr>
<td>Net capex</td>
<td>(0.1)</td>
<td>(18.1)</td>
<td>(63.3)</td>
</tr>
<tr>
<td>Other*</td>
<td>5.5</td>
<td>6.2</td>
<td>8.1</td>
</tr>
<tr>
<td><strong>Operating cash flow</strong></td>
<td>(19.8)</td>
<td>(133.4)</td>
<td>(66.8)</td>
</tr>
<tr>
<td>Net interest &amp; tax</td>
<td>(10.4)</td>
<td>(3.3)</td>
<td>(21.8)</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>(30.2)</td>
<td>(136.7)</td>
<td>(88.6)</td>
</tr>
<tr>
<td>Adjusted conversion*</td>
<td>(36.1)%</td>
<td>(218.3)%</td>
<td>(58.0)%</td>
</tr>
</tbody>
</table>

- Continued reduction in supplier payment terms from 57 days to 38
- Working capital also reflects a further £13m reduction in KEPS, £43m for the last 12 months
- Improved capital allocation

¹IFRS 16 breakdown £m

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Depreciation</td>
<td>18.1</td>
</tr>
<tr>
<td>Interest</td>
<td>(3.6)</td>
</tr>
<tr>
<td>Repayment of finance leases</td>
<td>(18.8)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(4.3)</strong></td>
</tr>
</tbody>
</table>

* Share based payments, disposals of fixed assets and pension deficit payments
*¹ ratio of operating cash flow shown above to adjusted operating profit

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### Intra year working capital swing improved

* Share based payments, disposals of fixed assets and pension deficit payments

# ratio of operating cash flow shown above to adjusted operating profit
Net debt (£m)

- Net debt Jun 2019: (167)
- EBITDA: 55
- Working capital*: (76)
- Interest & tax: (10)
- Exceptional items: (36)
- Sales proceeds: 14
- Discontinued items: (8)
- Other: (14)
- Net debt Dec 2019: (242)

* Includes £13m KEPS reduction
## Financial position

<table>
<thead>
<tr>
<th>KPIs</th>
<th>Dec 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt (£m)</td>
<td>242</td>
</tr>
<tr>
<td>Average month end net debt (£m)</td>
<td>395</td>
</tr>
<tr>
<td>Interest cover covenant</td>
<td>&gt;4.0x</td>
</tr>
<tr>
<td>Net debt to EBITDA covenant</td>
<td>&lt;3.0x</td>
</tr>
</tbody>
</table>

### Renewal date main facilities

<table>
<thead>
<tr>
<th>Calendar year</th>
<th>RCF</th>
<th>USPP</th>
<th>Schuldschein</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2022</td>
<td>0</td>
<td>0</td>
<td>700</td>
</tr>
<tr>
<td>2023</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2024</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

£m in total.
Kier Living update

- A new experienced management team focused on delivery
- Sales process continues to progress
- Classified as discontinued
- Held as asset for sale

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 / 20</th>
<th>H1 2018 / 19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£54.4</td>
<td>£81.5</td>
</tr>
<tr>
<td>Adjusted operating profit*</td>
<td>8.4 (15.4)</td>
<td>11.5 (14.1)</td>
</tr>
<tr>
<td>Interest charge</td>
<td>(1.0)</td>
<td>(1.7)</td>
</tr>
<tr>
<td>Adjusted profit before tax</td>
<td>7.4 (13.6)</td>
<td>9.8 (12.0)</td>
</tr>
</tbody>
</table>

* Stated before Northern division historical costs of £(2.4)m
Other

Property, Environmental Services, Facilities Management

- Ongoing release of capital from property
  - Delays in some completions impacting revenue
  - Capital at £168m down £16m from June 2019
- Winding down of environmental business is ongoing
  - Improved cost control as contracts are exited
- Exited several facilities management contracts
  - Further exits planned in the second half

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 / 20</th>
<th>H1 2018 / 19</th>
<th>Increase / (decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>233.3</td>
<td>273.3</td>
<td>(15)%</td>
</tr>
<tr>
<td>Operating profit (£m)#</td>
<td>4.3</td>
<td>0.2</td>
<td>2,050%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>1.8%</td>
<td>0.1%</td>
<td>170bps</td>
</tr>
<tr>
<td>Order book (£bn)</td>
<td>1.0</td>
<td>1.0*</td>
<td>-</td>
</tr>
</tbody>
</table>

# stated before exceptional items and amortisation of intangible assets, * Stated at 30 June 2019
## Order book

<table>
<thead>
<tr>
<th>£bn</th>
<th>30 Jun 2019</th>
<th>31 Dec 2019</th>
<th>(Decrease) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure services</td>
<td>4.3</td>
<td>4.3</td>
<td>-</td>
</tr>
<tr>
<td>Construction</td>
<td>2.6</td>
<td>2.6</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>1.0</td>
<td>1.0</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>7.9</strong></td>
<td><strong>7.9</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

### June 2019 order book
- Infrastructure Services: 0.8
- Construction: 0.8
- Other: 0.1
- HS2: 6.9

### Awards
- Infrastructure Services: 0.8
- Construction: (0.8)
- Other: (0.1)
- HS2: 0.1

### Revenue recognised
- Infrastructure Services: (0.8)
- Construction: 0.8
- Other: (0.1)
- HS2: 1.0

### December 2019 order book
- Infrastructure Services: 6.9
- Construction: 6.9
- Other: -
- HS2: -
Operational review
Andrew Davies, Chief Executive
Operational review - Construction

### Construction

- Construction revenue 7% and operating profit 21% has decreased but there have been several contract wins in early 2020.
- Work continues on the £250m Wellingborough Prison and at RAF Lakenheath.
- FY20 revenue 100% secured (FY21: 69%)

### Key Figures

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 / 20</th>
<th>H1 2018 / 19</th>
<th>Increase / (decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>844.0</td>
<td>909.3</td>
<td>(7)%</td>
</tr>
<tr>
<td>Operating profit (£m)#</td>
<td>28.8</td>
<td>36.4</td>
<td>(21)%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>3.4%</td>
<td>4.0%</td>
<td>(60)bps</td>
</tr>
<tr>
<td>Order book (£bn)</td>
<td>2.6</td>
<td>2.6*</td>
<td>-</td>
</tr>
</tbody>
</table>

### Performance

- Key frameworks awarded in the period included the £30bn Crown Commercial Services Framework.
- Appointed to £4.2bn of Framework agreements so far in 2020.
- c.£36bn of Framework agreement wins in the financial year.
- Contract wins of £145m in early 2020 including a new Town Hall as part of £150m Crawley Town Centre regeneration.
- FY20 revenue 100% secured (FY21: 69%)

### Well placed for future activity

# stated before exceptional items and amortisation of intangible assets, * Stated at 30 June 2019
Operational review – Infrastructure Services

Highways continues to experience volume pressures with contracts reaching natural end point.

Utilities focused on margin, resulting in revenue and profit being below last year.

Infrastructure revenue and profit below last year due to phasing on new projects.

Early works started in HS2.

**Customers**

- Contract extensions secured with Northamptonshire and 15 month contract for Birmingham Council.
- Work continues on the M6, M20 and M23 Smart Motorways and Regional Delivery Partnership schemes.
- Contracts with new clients Openreach and Yorkshire Water.
- Contract renewals with Anglian Water and Virgin.
- The pipeline for high quality long term infrastructure works is strong in our sectors.
- FY20 revenue 97% secured (FY21: 73%).

<table>
<thead>
<tr>
<th></th>
<th>H1 2019 / 20 (£m)</th>
<th>H1 2018 / 19 (£m)</th>
<th>Increase / (decrease)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue (£m)</td>
<td>783.2</td>
<td>870.7</td>
<td>(10)%</td>
</tr>
<tr>
<td>Operating profit (£m)#</td>
<td>27.6</td>
<td>40.3</td>
<td>(32)%</td>
</tr>
<tr>
<td>Operating margin</td>
<td>3.5%</td>
<td>4.6%</td>
<td>(110)bps</td>
</tr>
<tr>
<td>Order book (£bn)</td>
<td>4.3</td>
<td>4.3*</td>
<td>-</td>
</tr>
</tbody>
</table>

Performance

- Highways continues to experience volume pressures with contracts reaching natural end point.
- Utilities focused on margin, resulting in revenue and profit being below last year.
- Infrastructure revenue and profit below last year due to phasing on new projects.
- Early works started in HS2.

Excellent pipeline & opportunities

# stated before exceptional items and amortisation of intangible assets, * Stated at 30 June 2019.
In joint venture with Eiffage
Delivering early works since 2018
Civil engineering works across an 80km section between the Chilterns to outskirts of Birmingham
- 15 viaducts
- 6.5km of green tunnels
- 22km of road diversions
- 75 overbridges
- 30 million cubic metres of excavation.
Strategic progress
Andrew Davies, Chief Executive
Strategic actions

- Simplify the Group
- Improve cash flow
- Reduce net debt
Operating structure

Construction
- Regional Building

Infrastructure Services
- Highways
- Utilities
- Infrastructure

All based on long term frameworks
Cost reduction programme

Headcount reduction

- FY19: ~650
- HY20: ~1,100
- FY20: ~1,250

FY20: Focus on sustainable value

- Reduce centre overhead
  - 1,222 people left to date
  - 420 people left in period
  - Further 50 people to have left by FY2021

- Enablers:
  - Devolving central functions to the streamlined businesses as appropriate
  - Rationalise Group estate including Tempsford Hall
  - Fleet and IT outsourcing completed

Full run rate in FY 2021 will be at least £65m
Strategic framework

Purpose
To sustainably deliver infrastructure which is vital to the UK
Strategic framework

**Purpose**
To sustainably deliver infrastructure which is vital to the UK

**Vision**
To be the UK’s leading construction and infrastructure service company
Strategic framework

Purpose
To sustainably deliver infrastructure which is vital to the UK

Vision
To be the UK’s leading construction and infrastructure service company

Strategy
- Focus on government, regulated or blue-chip client base
- Operate in business to business markets
- Contracting through long-term frameworks
Strategic framework

Purpose
To sustainably deliver infrastructure which is vital to the UK

Vision
To be the UK’s leading construction and infrastructure services company

Strategy
- Focus on government, regulated or blue-chip client base
- Operate in business-to-business markets
- Contracting through long-term frameworks

Business plans
Clearly defined objectives and targets to implement the strategy
Strategic framework

Purpose
To sustainably deliver infrastructure which is vital to the UK

Vision
To be the UK’s leading construction and infrastructure service company

Strategy
Focus on government, regulated or blue-chip client base
Operate in business to business markets
Contracting through long-term frameworks

Businesses
Clearly defined objectives and targets to implement the strategy

Strategic actions
Simplify and focus Kier
Improve cash generation
Strengthen the balance sheet
Strategic framework

Our Performance Excellence culture

**People**
Our people deliver our projects. We will establish a consistent approach to performance management, career development and reward

**Process**
We will clearly define our core processes and policies to make sure people are clear on what they need to do

**Project execution**
Project planning and execution are key to the success of our business. We will instil discipline and consistency in our project delivery

**Cash management**
We will define a set of actions and targets to manage our cash effectively across our business
Strategic framework

Our Performance Excellence culture

- **People**: Our people deliver our projects. We will establish a consistent approach to performance management, career development and reward.
- **Process**: We will clearly define our core processes and policies to make sure people are clear on what they need to do.
- **Project execution**: Project planning and execution are key to the success of our business. We will instil discipline and consistency in our project delivery.
- **Cash management**: We will define a set of actions and targets to manage our cash effectively across our business.

A foundation of refreshed values

- **Collaborative**
- **Trusted**
- **Focused**
Strategic framework

Purpose
To deliver sustainable infrastructure which is vital to the UK

Strategy
Focus on government, regulated or blue-chip client base
Operate in business to business markets
Contract through long-term frameworks

Business plans
Clearly defined objectives and targets to implement the strategy

Strategic actions
Simplify and focus Kier
Improve cash generation
Strengthen the balance sheet

Our Performance Excellence culture

People
Our people deliver our projects. We will establish a consistent approach to performance management, career development and reward

Process
We will clearly define our core processes and policies to make sure people are clear on what they need to do

Project execution
Project planning and execution are key to the success of our business. We will need clear plans and consistency in our project delivery

Cash management
We will define a set of actions and targets to manage our cash effectively across our business
Summary and outlook

- Living sale progressing
- Resetting Group culture through new Board and Executive appointments
- Significant reductions in the Group’s cost base delivered
- HS2 early works and contract mobilisation commenced; anticipate starting construction later in 2020
- The second half has started positively with significant orders received
Appendix
Reconciliation to new corporate structure

Revenue and Operating profit

<table>
<thead>
<tr>
<th>£m</th>
<th>Revenue</th>
<th>Operating profit</th>
<th>Operating margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>909</td>
<td>36</td>
<td>4.0</td>
</tr>
<tr>
<td>Infrastructure Services</td>
<td>871</td>
<td>40</td>
<td>4.6</td>
</tr>
<tr>
<td>Other</td>
<td>273</td>
<td>0</td>
<td>0.0</td>
</tr>
<tr>
<td>Corporate</td>
<td>-</td>
<td>(34)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Group</strong></td>
<td>2,053</td>
<td>42</td>
<td>2.0</td>
</tr>
<tr>
<td>Infrastructure Services</td>
<td>871</td>
<td>40</td>
<td>4.6</td>
</tr>
<tr>
<td>Building</td>
<td>915</td>
<td>31</td>
<td>3.4</td>
</tr>
<tr>
<td>House &amp; Developments</td>
<td>268</td>
<td>5</td>
<td>1.9</td>
</tr>
<tr>
<td>Corporate</td>
<td>-</td>
<td>(34)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Group</strong></td>
<td>2,053</td>
<td>42</td>
<td>2.0</td>
</tr>
</tbody>
</table>
## Technical Guidance FY20

<table>
<thead>
<tr>
<th>Item</th>
<th>Guidance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finance costs</td>
<td>Proportional with average net debt</td>
</tr>
<tr>
<td>Tax rate</td>
<td>c.19%</td>
</tr>
<tr>
<td>Pension contribution</td>
<td>Subject to March 2019 triennial valuation</td>
</tr>
<tr>
<td>Capex</td>
<td>c.£10m-£20m</td>
</tr>
<tr>
<td>Regional Building</td>
<td>Demographic drivers</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>Government investment</td>
</tr>
<tr>
<td>Utilities growth</td>
<td>AMP7; government regulation</td>
</tr>
<tr>
<td>Highways</td>
<td>Road Investment Strategy 2</td>
</tr>
</tbody>
</table>
IFRS 16

- IFRS 16 ‘Leases’ adopted in FY20, replacing IAS 17.
- Operating leases previously not recognised as liabilities have been brought onto the balance sheet along with the associated right-of-use assets.
- Operating lease rentals in the P&L of £20.0m have been replaced by depreciation of £16.6m and interest payable of £3.5m. Net effect of £0.1m in interim P&L.
- No impact on actual cash flows but payments are reclassified in the cash flow statement under financing activities.

<table>
<thead>
<tr>
<th>Opening reserve adjustments</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Right-of-use assets recognised</td>
<td>173.0</td>
</tr>
<tr>
<td>New lease liabilities recognised</td>
<td>(187.9)</td>
</tr>
<tr>
<td>Assets held under finance leases reclassified from property, plant and equipment</td>
<td>(7.6)</td>
</tr>
<tr>
<td>Derecognition of rent prepayments and accruals</td>
<td>(1.9)</td>
</tr>
<tr>
<td>Onerous lease provisions (replaced by impairment of right-of-use assets)</td>
<td>4.4</td>
</tr>
<tr>
<td>Deferred tax asset recognised</td>
<td>3.4</td>
</tr>
</tbody>
</table>

**Total decrease in reserves** | **(16.6)**
Pensions

Pension schemes remain in overall surplus

<table>
<thead>
<tr>
<th>£m</th>
<th>31 December 2019</th>
<th>30 June 2019</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Pension Schemes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market value of assets</td>
<td>1,780</td>
<td>1,789</td>
<td>(9)</td>
</tr>
<tr>
<td>Present value of liabilities</td>
<td>(1,777)</td>
<td>(1,770)</td>
<td>(7)</td>
</tr>
<tr>
<td>Net pension asset in the schemes</td>
<td>3</td>
<td>19</td>
<td>(16)</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>(1)</td>
<td>(3)</td>
<td>2</td>
</tr>
<tr>
<td><strong>Net pension asset after deferred tax</strong></td>
<td><strong>2</strong></td>
<td><strong>16</strong></td>
<td><strong>(14)</strong></td>
</tr>
</tbody>
</table>

Key assumptions:

- Discount rate: 2.05% (2019) vs 2.3% (2018)
- Inflation rate – RPI: 3.0% (2019) vs 3.1% (2018)
- Inflation rate – CPI: 1.9% (2019) vs 2.0% (2018)

The decrease in the net pension surplus was primarily driven by a fall in corporate bond yields, leading to a lower discount rate and therefore higher value of the defined benefit obligations.
Construction sector distribution

- Education
- Health
- Government
- Private

Division total
- 36%
- 32%
- 12%
- 20%

Regional Building
- 46%
- 17%
- 14%

Major Projects Building
- 59%
- 28%
- 13%

International
- 100%

Housing Maintenance
- 91%
- 9%
Infrastructure Services sector distribution

- **Division total**
  - Highways: 56%
  - Rail: 15%
  - Power: 14%
  - Water: 5%
  - Telco: 2%
  - Other: 0%

- **Highways**
  - 100%

- **Utilities**
  - 30%

- **Infrastructure**
  - 48%