

Well-placed to drive sustainable growth underpinned by a strong balance sheet



ANDREW DAVIES
Chief Executive

Introduction

The Group delivered materially improved results in FY21 demonstrating the completion of our operational and financial strategic actions announced in June 2019: to simplify and focus the Group, improve the Group's cash generation and strengthen its balance sheet.

In FY21, we reported revenue of £3.3bn, a slight decrease of 4% on the prior year reflecting our ongoing exit of some non-core low margin and loss-making contracts, the successful completion of our motorway upgrade projects and the ongoing impact of the COVID-19 pandemic; partially offset by growth in our core businesses.

We generated strong adjusted operating profit of £100m (FY20: £41m). An increase in margin from 1.2% to 3.0% reflects our improved quality of earnings.

Free cash flow amounted to £93m (FY20: £(8)m). See page 30 for more information. We achieved a high level of cash generation as profits translated to cash and working capital normalised, enabling the Group to support business growth opportunities and deleveraging.

The Group's net cash position at 30 June 2021 of £3m (FY20: £(310)m) demonstrates the continued focus on cash and improved strength of the Group's balance sheet.

Average year-end net debt for FY21 was £432m and remained at a similar level to the prior year (FY20: £436m) due to the Group's receipt of the capital raise and Kier Living sale proceeds in the final months of the year.

Strategy update

The strong performance demonstrates that the simplification of the Group has been completed through the exit of non-core businesses and the adoption of an appropriate cost base. These actions delivered a savings run rate of c.£115m in FY21. The Performance Excellence culture has been embedded in the Group which will drive continuous improvement.

The successful capital raise, together with the recent sale of Kier Living, raised c.£350m of gross proceeds for the Group. This, together with the extension of the Group's 2017 RCF Facility to January 2025, provides Kier with the financial and operational flexibility to continue to pursue its strategic objectives within its chosen markets and will allow it to further enhance and capitalise on its position as a strategic partner to its customers.

The Group's strategy continues to be focused on:

- › UK Government, regulated industries and blue-chip customers;
- › operating in the business-to-business market; and
- › contracting through long-term frameworks.

Our core businesses are well-placed to benefit from the announced and committed UK Government spending plans to invest in infrastructure, decarbonisation and the post COVID-19 recovery. We have secured places on long-term frameworks through which much of the increased spend will be deployed.

This, combined with our nationwide coverage and project management expertise, is expected to drive our strategic actions of disciplined growth, consistent delivery and strong cash generation.

Medium-term value creation plan

The Group is now focused on delivering its medium-term targets:

- › Revenue: £4.0bn to £4.5bn
- › Adjusted operating profit margin: c.3.5%
- › Cash conversion of operating profit: c.90%
- › Balance sheet: sustainable net cash position with capacity to invest
- › Dividend: sustainable dividend policy: c.3 x cover through the cycle.

The Group aims to achieve these medium-term targets through:

- › volume growth and improved contract profitability;
- › continued management discipline;
- › deploying additional capital in the Property business; and
- › a recovery from COVID-19.

Performance Excellence

Kier now operates with a strong operational and financial risk management framework, which is fundamental to, and embedded into Kier's contract selection and delivery processes.

Kier's Performance Excellence culture introduced a consistent approach in how Kier develops and manages people, as well as processes, projects, costs and its way of working. The key tenets are as follows:

- › deliver projects on time and to budget, thereby meeting clients' and customers' expectations;
- › do not enter into contracts with unacceptable risk profiles;
- › introduce increased levels of resilience, and a consistency of approach, across the Group; and
- › win new business with attractive margins.

Kier launched a new Operating Framework in January 2020, which sets out the governance structure within which the Group now operates, including a new framework for the assessment of contract risk and new project reviews to ensure that the Group only enters into contracts with an acceptable and appropriate risk and financial reward profile.

Performance Excellence is also fundamental to the Group's approach to safety, with the aim of continuing to improve the overall safety performance.

Supply chain partners

We have also focused on maintaining and growing relationships with our key stakeholders, including our supply-chain. Many of our suppliers are long-term partners of the Group and we value their contribution.

We were pleased to report that, in our latest Duty to Report on Payment Practices and Reporting submission covering the period from 1 January 2021 to 30 June 2021, the Group's aggregate average payment days was 34 days (H1: 33 days) and the percentage of payments made to suppliers within 60 days was 89% (H1: 91%). For the year, our payment days have reduced from 38 to 34 days.

Executive Committee

Strengthened management team as the Group moves into the next phase of its strategy.



ANDREW DAVIES
Chief Executive



SIMON KESTERTON
Chief Financial Officer



HELEN REDFERN
Group HR Director



STUART TOGWELL
Group Commercial Director



SOPHIE TIMMS
Corporate Affairs Director



ALPNA AMAR
Corporate Development Director



LIAM CUMMINS
Group Managing Director Construction



MARK PENGELLY
Group Managing Director Infrastructure



BARRY MCNICHOLAS
Group Managing Director Utilities



JOE INCUTTI
Group Managing Director Highways



LEIGH THOMAS
Group Managing Director Property

We are committed to further improvements in our payment practices and continue to work with both customers and suppliers to achieve this. We are fully committed to complying with the 30-day payment requirements for small and medium-sized firms.

Management changes

The Group has continued to strengthen its management team through the year with three new appointments to the Executive Committee:

- › Alpa Amar, Corporate Development Director responsible for Strategy, Mergers & Acquisitions and Investor Relations;
- › Leigh Thomas, Group Managing Director of our Property business; and
- › Sophie Timms, Corporate Affairs Director responsible for UK Government relations and communications.

The refreshed team provides additional strength and perspectives as the Group moves into the next phase of its strategy.

Customers and winning new work

We remained focused on winning work through our long-standing client relationships and regionally based operations. The Group's order book at 30 June 2021 was £7.7bn (FY20: £7.9bn). We continue to win new high quality and profitable work.

During the year:

- › Highways was appointed to deliver a c.£200m maintenance and management contract for TfL over eight years
- › Infrastructure was appointed on the first stage of a £50m Enabling Civils Works programme on Phase 2a of HS2
- › Utilities won a contract with Openreach to construct new broadband infrastructure in urban and rural areas in the west and south of England as well as Scotland, building on our current delivery of a similar contract in Wiltshire, Hampshire and Berkshire
- › Construction won a place on the Ministry of Justice's £1bn New Prisons Programme and was also appointed to Lot 1 of the SCAPE next generation framework in England & Wales and Lot 2 of newly launched SCAPE Scotland.

Safety, Health and Environment ('SHE')

The safety, health and wellbeing of all of our employees and suppliers remain of paramount importance. We continue to work in line with Government Guidance in respect of COVID-19. With that, it is a matter of deep regret that an employee of one of our subcontractors suffered a fatality at one of our sites in our International business in UAE in August 2020. We worked with our subcontractor and fully co-operated with the local authority in their investigations to ensure all lessons learnt could be embedded in the Group's operations. Our sympathy goes out to the bereaved family.

The Group's 12-month rolling Accident Incident Rate ('AIR') of 105 and 12-month rolling All Accident Incident Rate ('AAIR') of 332 represents increases of c.21% and c.9% respectively compared to FY20. Whilst we recognise this is disappointing, we retain a solid safety record and maintain high safety standards in our industry. Health and safety remains our licence to operate and we continue to embed best practice and make conditions as safe as possible for our workforce. Looking at the long-term trend, the Group's AIR and AAIR have both decreased by c.50% compared to five years ago.

Environmental, Social and Governance ('ESG')

In July 2020, the Group launched a new sustainability framework 'Building for a Sustainable World', which reframed sustainability

away from being an environmental specialism to being a strategic and business critical mindset, balancing the need for environmental resilience, community resilience and profitability in day-to-day decision making.

The framework is governed through Sustainability Leadership Forums established at Group level and for each core business.

Environmental

Under this framework, the Group has committed to achieving net zero carbon across its own operations and supply chain by 2045. This supports the UK Government's commitment to net zero by 2050.

Our environmental sustainability approach is based on five pillars:

- 1. Pollution prevention:** prevent pollution from all operations within our control
- 2. Sustainable procurement:** take a lifecycle approach to the sourcing of materials, products and services
- 3. Net zero carbon:** achieve net zero carbon across our business operations by 2039 and supply chain by 2045
- 4. Zero avoidable waste:** produce no avoidable waste by 2035 and operations to be single use plastic-free by 2030
- 5. Biosphere protection:** maintain a healthy environment for future generations.

In FY21, the Group's businesses have concentrated on achieving their environmental framework reduction targets, which they have made considerable achievement on, as well as developing the Group's pathway to Net Zero, with interim targets, annual carbon budgets and limits on carbon offsetting.

The Group is launching carbon, water, waste and biodiversity KPIs for FY22, and seeking to employ innovation, new technology and best practices in pollution prevention.

We have won a number of 'Green Apple' awards for biodiversity and protected species enhancement. In partnership with Network Rail, Kier won a 'Sustainability & Environmental Excellence' award at the 2020 Rail Business Awards, for its work in the community. Kier was shortlisted for 'Most Innovative Use of Existing Tech' at the 2020 Water Industry Awards, as a result of its collaboration with Huber and South West Water to reduce chemical consumption and operating costs in the South West of the UK.

Social

The Group's work and actions directly and positively impact the communities it serves, and this in turn generates wider value for society. Our social sustainability framework is based on the following pillars:

- 1. Building for tomorrow:** developing partnerships to drive forward sustainability
- 2. Equality and diversity:** creating a diverse and inclusive business
- 3. Our social value and purpose:** tackling inequality at work and in communities
- 4. Employee wellbeing and engagement:** recognising the importance of safety, wellbeing and employee retention
- 5. Protecting human rights:** addressing the way we operate and conduct our business.

The Group has achieved progress on these objectives, including its graduate intake comprising 25% women in FY21 and achieving expenditure of 41% of revenue on a number of public sector frameworks with SMEs, as well as training 900 mental health first aiders.

The Group introduced a new severity-based metric to focus on wider health and safety performance in its operations. This follows an established track record on social sustainability matters. For example, the Group was the first construction company, as part of the Department of Education's Care Leaver Covenant, to support 16 to 25 year olds who had spent time as 'cared for children'.

Our Highways business and our HS2 joint venture are both Disability Confident employers. Our Highways business has also been a Disability Confident Leader since 2019, enabling people of all abilities to come into the workplace.

The Group's social framework commitments include developing and launching a new employee health and wellbeing strategy, as well as a Group Equality, Diversity and Inclusion strategy. This is driven by our recently appointed Group Head of Equality, Diversity and Inclusion. These efforts are supported by a focus on social purpose that aims to tackle inequality by giving individuals and communities the tools and opportunities to create brighter futures. For example, we had 649 apprentices participating on a Kier apprenticeship programme during the financial year ended 30 June 2021 which included 220 graduate apprentices.

Governance

Governance will remain a core component of the Group's approach to operations. The Group monitors governance matters through Annual BSI audits on ISO14001, 45001 & 9001 compliance, Integrated Operational Assurance Statement & processes and operating assurance statements. The Group's internal policy centre supports the Group's efforts in governance focus areas such as modern slavery, anti-bribery and corruption, data protection and whistleblowing matters.

Framework commitments on governance matters include continued participation in Sustainability Leadership Forums, ensuring Board oversight and cross-functional input, as well as implementation of project lifecycle management systems and processes, and continuous improvement of the Operational Assurance Statement processes and increased training requirements.

Our people

The Group's strong performance is attributable to the dedication of our c.10,800 employees across the UK. I would like to thank them for their commitment and contribution throughout the year.

Summary and outlook

The Group delivered a strong operational performance and materially improved results in FY21. We have completed the strategic actions set out in 2019 to simplify and focus the Group, improve cash generation and strengthen our balance sheet. The successful capital raise, the recent sale of Kier Living, and the extension of the Group's RCF facility provide Kier with the financial and operational flexibility to continue to pursue its strategic objectives within its chosen markets and will allow it to further enhance and capitalise on its position as a strategic partner to its customers.

Current trading is in line with our expectations and, notwithstanding potential inflationary pressures and the impact of increased national insurance contributions, our outlook for the current year remains unchanged. We are now focused on delivering our medium-term value creation plan by leveraging our attractive market positions, delivering our high-quality order book and fostering our long-term customer relationships and sector expertise.

ANDREW DAVIES

Chief Executive

15 September 2021

Performance Excellence

In order to introduce a consistent approach in how we develop and manage our people, processes, projects, costs and our future ways of working, we launched Performance Excellence in January 2020. This includes our new Operating Framework, which sets out the governance structure within which the Group operates. It provides clarity on key roles and responsibilities. The Operating Framework, together with the new Code of Conduct, guides the behaviours of our employees.



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 policies and core business processes 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



The future of work

We will establish new ways of working for our people, that benefit our clients and support the communities we serve

Values



Collaborative

We enjoy what we do and work closely with clients and stakeholders to reach innovative solutions



Trusted

We deliver what we promise. We act safely and ethically and we care for the environment and the communities in which we work



Focused

We are clear in our approach. We are disciplined and thorough in how we work and deliver for our clients and customers