



Kier Residential

Investor Seminar



Today's schedule



10:30	Corporate update	Trading update and residential overview	Haydn Mursell
	Operations	Mixed tenure market	John Anderson
	Client	Thames Valley Housing Association	Geeta Nanda
	Operations	Kier mixed tenure case studies	Chris King
		Q&A	
12:00-1:00	Lunch		

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Speakers



**Haydn
Mursell**
Chief
Executive



**John
Anderson**
Executive
Director
Kier Living

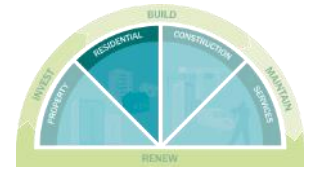


**Geeta
Nanda**
Chief
Executive
Thames
Valley
Housing



**Chris
King**
Managing
Director
Kier Living
Central

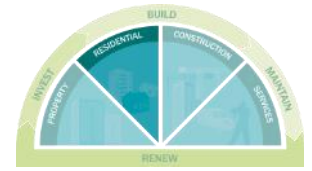
Strong group outlook



Trading in line with expectations

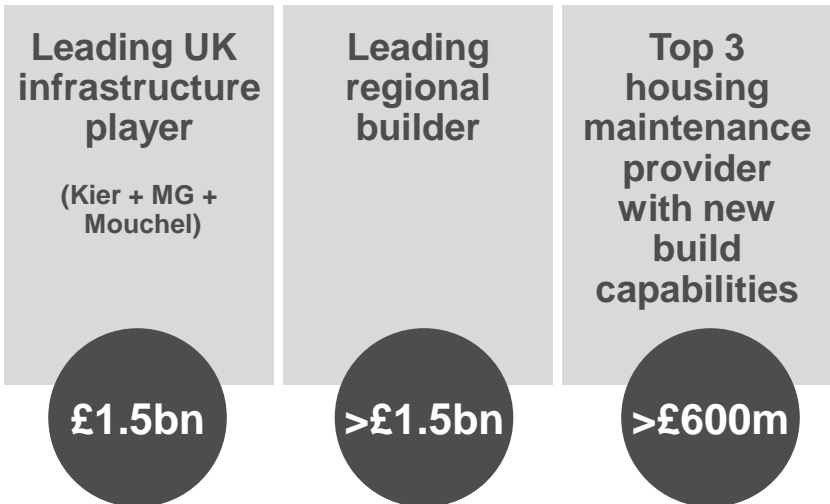
- Solid order books
 - 100% visibility for Construction and Services for 2017
- Portfolio simplification progressing
 - Disposal of Mouchel Consulting to WSP Global Inc completed
 - Caribbean closure to conclude by March 2017
- Average net debt expected to be in line with the prior year at £300m (2016: £280m)
 - Reflects proceeds from the sale of Mouchel Consulting
 - Invested £100m since 1 July 2016 in Property and Residential
- On track with Vision 2020 goals

Market-leading positions



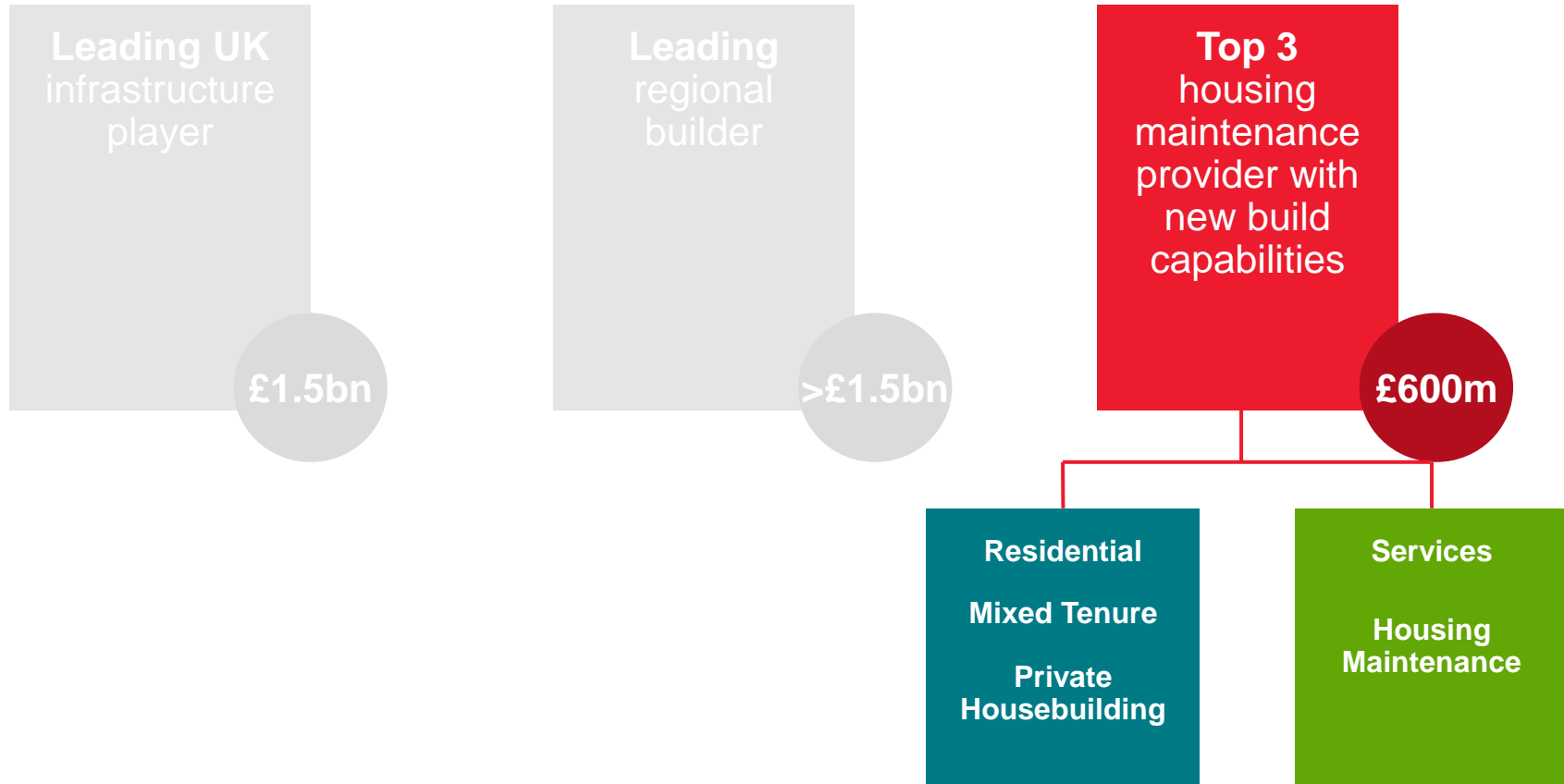
With strong long-term fundamentals

- Strategic focus aligned to the UK's spending priorities
- Relatively unaffected to date by Brexit
- Ready for Government stimulus
 - 'Shovel ready' activity
 - Longer-term capital projects
- Autumn statement



Represents >90% of Group turnover

Top three market position



Residential – ahead of target



Mixed tenure

- Returns improving as business expands nationally
- Capital available from 'recycled' land bank
- Financing structures key - New Communities Partnership

Private (Kier land)

- Sales rates and prices in line with prior year

V2020
progress

FY 14

£240m average capital
2% ROCE

FY 16 guide

£240m average capital
7% ROCE

FY 16 actual

£231m average capital
9% ROCE

**AHEAD OF V2020
TARGET**



THE NEW COMMUNITIES
PARTNERSHIP

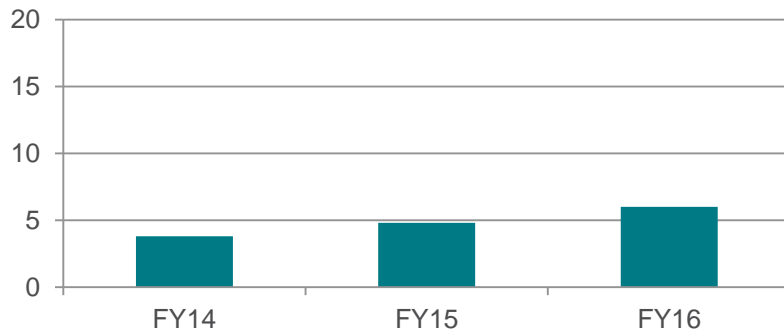


Residential – improving returns

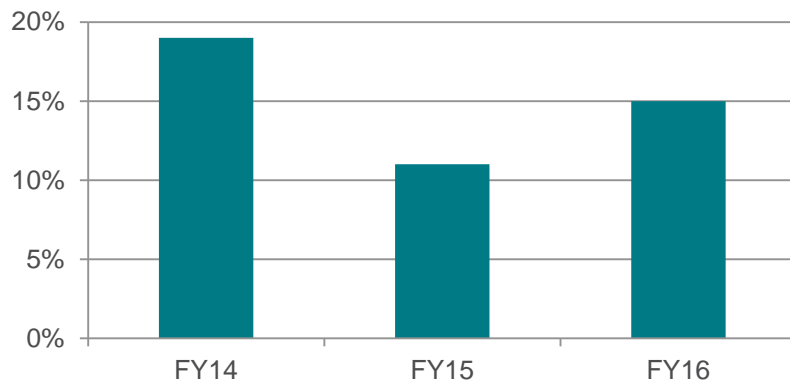


Mixed tenure

Underlying operating profit (£m)

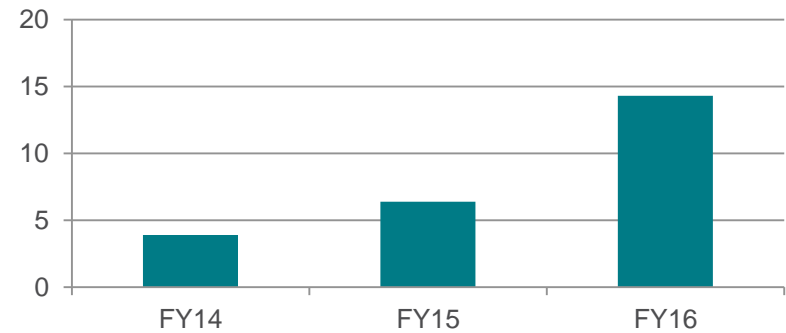


Return on average capital (ROCE)

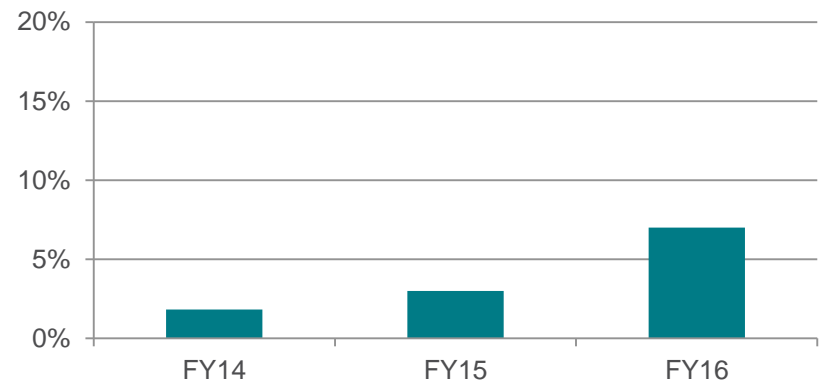


Private

Underlying operating profit (£m)



Return on average capital (ROCE)



Residential – positive outlook



	Mixed tenure	Private (Kier land)
UK market environment	<ul style="list-style-type: none"> ▪ Shortage of affordable housing ▪ Financing structures are key 	<ul style="list-style-type: none"> ▪ Demand for housing exceeds supply ▪ Good mortgage availability
Market position	<ul style="list-style-type: none"> ▪ National coverage ▪ Broad capabilities <ul style="list-style-type: none"> ▪ New build & maintenance 	<ul style="list-style-type: none"> ▪ Regional focus, not London & SE ▪ Modest sales price range
Improving margins and capital efficiency	<ul style="list-style-type: none"> ▪ >70% secured for FY17 ▪ >£600m pipeline ▪ Self sufficient from cash perspective 	<ul style="list-style-type: none"> ▪ >50% forward sold for FY17 ▪ Renewal of land bank to service profit growth

Well positioned across all tenures of new build housing

Confident in Vision 2020 targets



		2014	2016	2020
Units	Mixed tenure	450	1,400	2,500-3,000
	Private	600	750	700-800
		1,050	2,150	c3,500
Average capital employed £m	Mixed tenure	20	40	80-100
	Private	210	190	150-170
		230	230	250
Return on average capital employed (ROCE) %	Mixed tenure		15%	20%+
	Private		7%	10%-15%
		3%	9%	15%

Kier's mixed tenure model



Mixed tenure

Blended business

- Open market sales
- Affordable housing
- Contracting

Financial targets

- Operating margin 10%
- ROCE >20%
- Double current volumes by 2020

Market position

- Significant HCA, Local authority and Housing Association relationships
- 4% market share

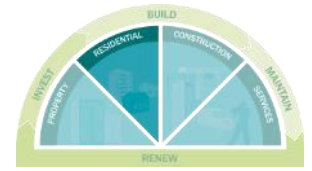


Significant scope for growth



Kier Residential
John Anderson - Executive Director

Unique position



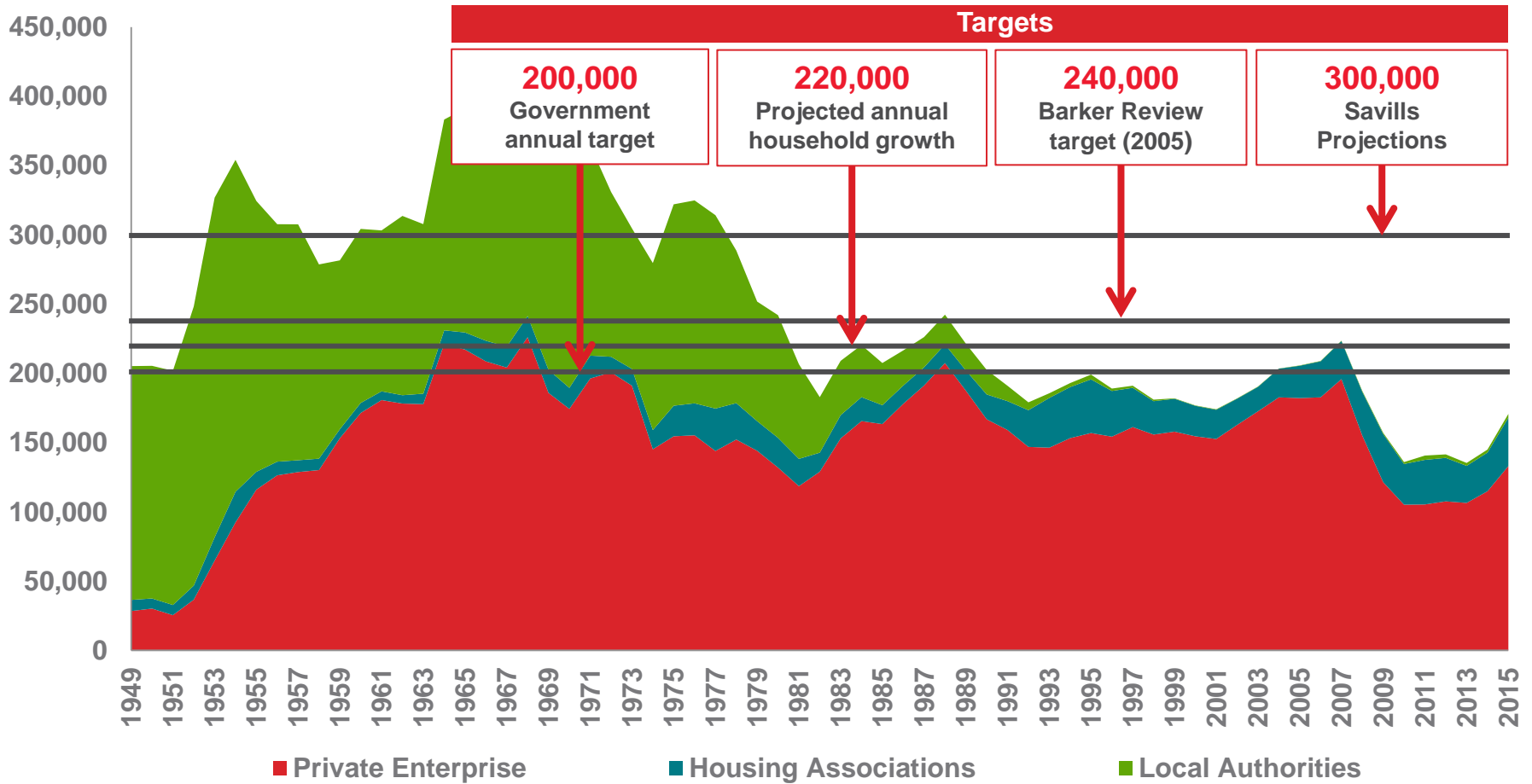
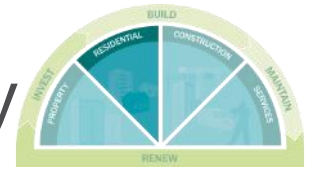
Kier is able to meet the growing national need

- The UK housing market is structurally undersupplied
- Government stimulus is influencing the market
- Kier is well positioned:
 - End-to-end capability
 - Overcome barriers to entry
 - Strong relationships
 - Innovative funding solutions



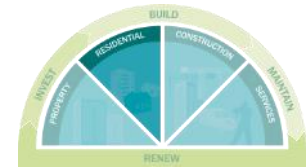
Kier Living	Invest
Kier Living	Build
Housing Maintenance	Maintain

Housing shortage needs addressing urgently



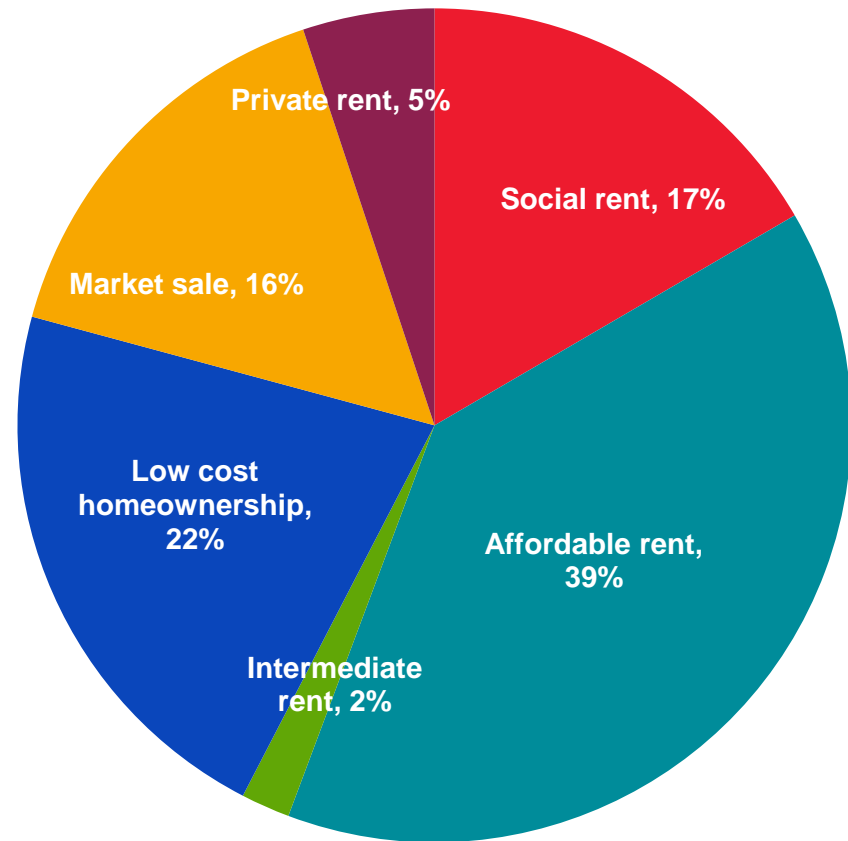
UK housing completions. Source: DCLG/Knight Frank/Savills

Shift in mixed tenure

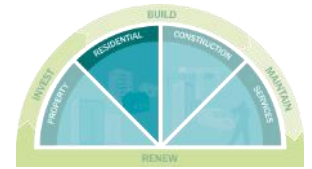


- Affordable housing providers disrupted by policy changes
- Cross-subsidise affordable provision with private sales
- Public sector bodies partnering with private sector providers
- Greater capital efficiency
- Supplement traditional income
- Kier completed 4% of the mixed tenure market FY16
 - Scope for growth

Tenure of completed homes 2015/16



Government stimulus

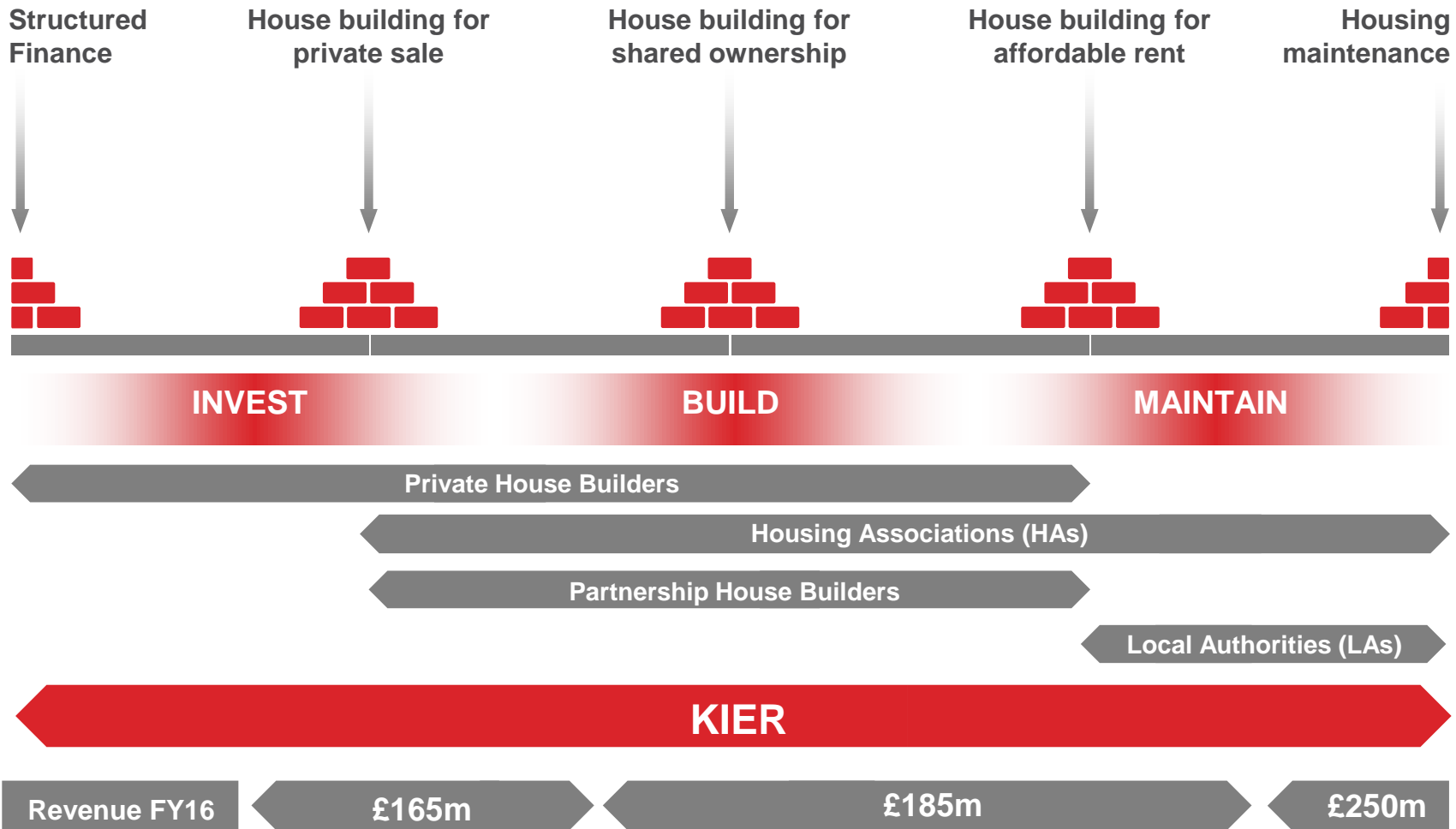


Supply & demand stimulus

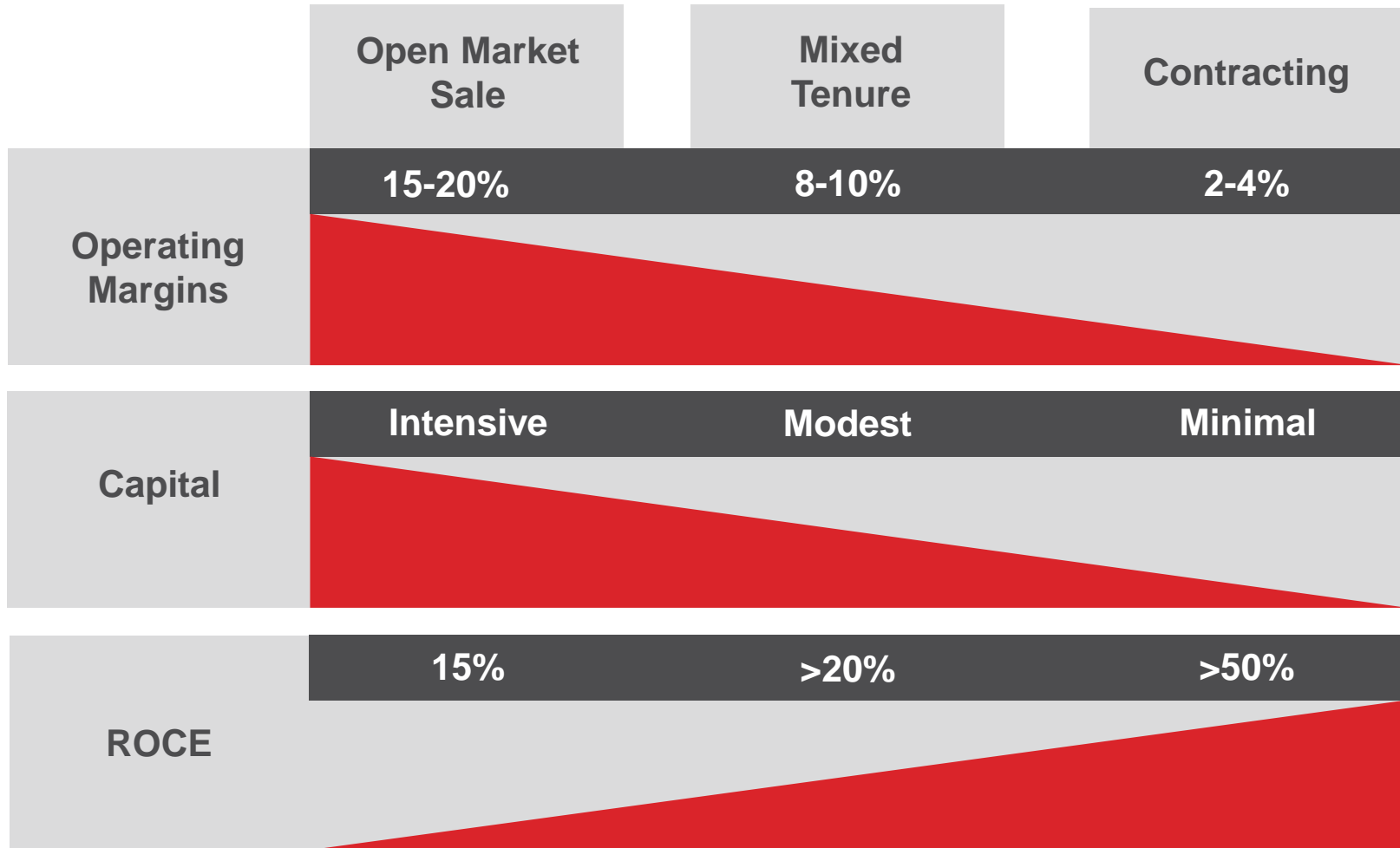
- **Government target:** 1 million new homes by 2020
 - National Planning Policy Framework. Simplified planning
 - Help to Buy equity loan scheme. 100k homes sold
- **Autumn Statement:**
 - **£4.7bn** already committed to shared ownership and affordable housing program 2016 - 2021
 - Additional **£1.4bn** to fund 40,000 new affordable homes of mixed tenure
 - Infrastructure Fund. **£2.3bn**
 - **£2bn** 'accelerated construction' scheme
 - **£1.8bn** Local Enterprise Partnerships
- **Housing White Paper** – By year end

Source: Home Builders Federation. HM Treasury Autumn Statement 2016

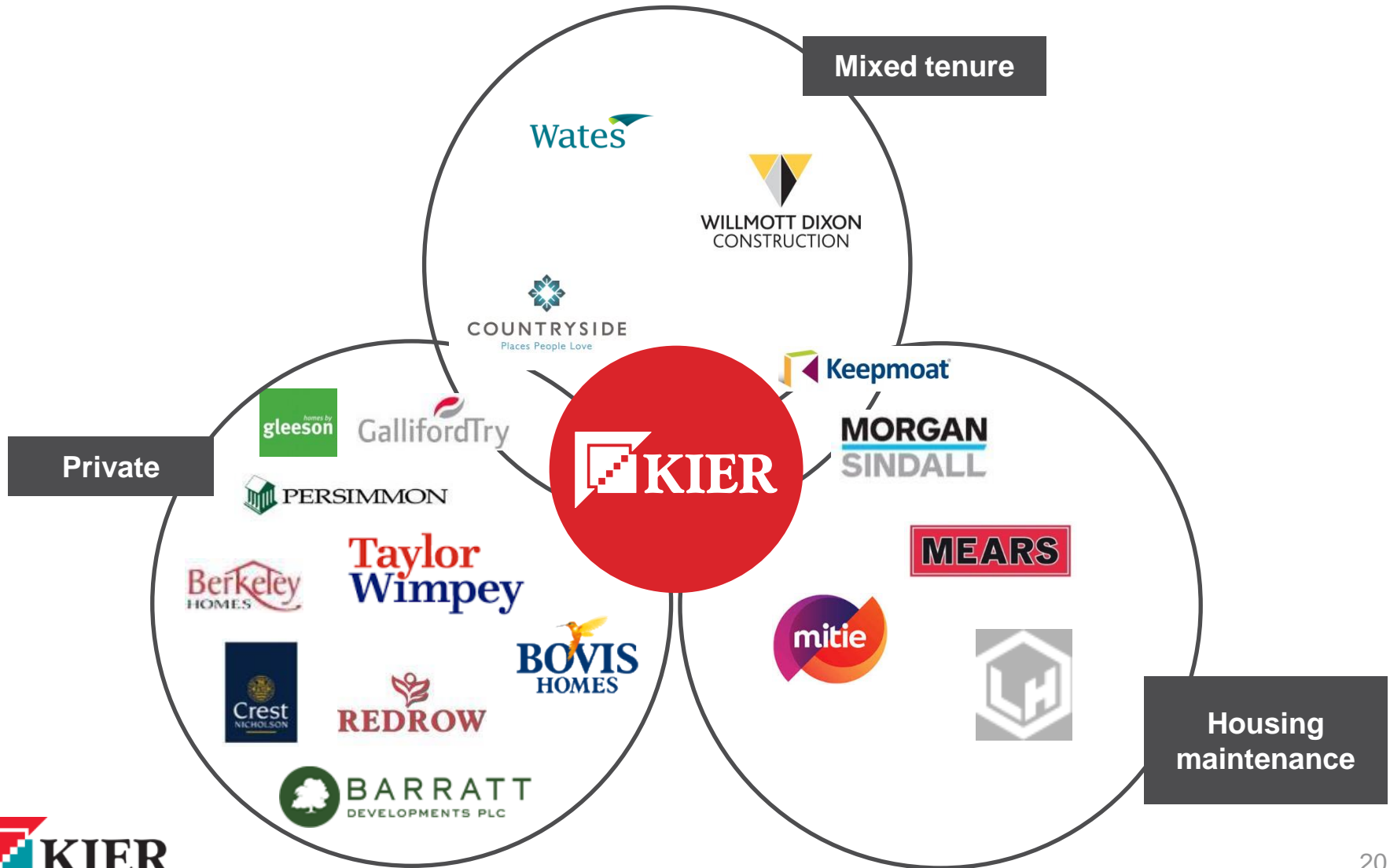
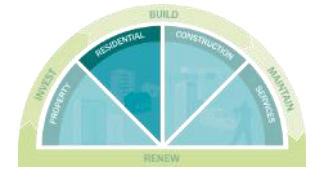
Integrated breadth of services



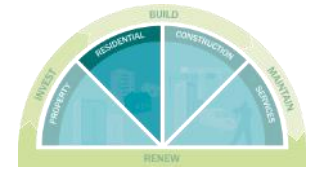
Returns across all tenures



Fragmented mixed tenure market



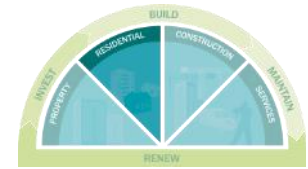
Kier has overcome the barriers to entry



- Regulatory constraints
 - Public land procured through limited frameworks
 - Regulatory demands of public sector land development
 - Continuous HCA engagement
 - HCA performance monitoring
- Planning process challenging
- Strong relationships from Kier services
- Risk averse debt market
-Limiting competition



Joint Ventures unlocking the market



Funding led model

New Communities Partnership

- £1bn housing fund targeting asset rich but cash poor Local Authorities
- Mixed tenure focus
- 5,000 plots under review since launch



Land led model

Joint Ventures

- Targeting cash rich but land poor Housing Associations
- Mixed tenure focus
- Three year pipeline of 1,500 units



Extensive reach and relationships

- Three year pipeline >£600m
- In excess of three years supply
- Visibility beyond 2020
- Relationship with 140 of 400 Local Authorities



Industry acknowledgement



Kier is well positioned



UK has a long-standing housing crisis
– Government is committed to increase housebuilding

Industry has delivered growth but housing remains structurally undersupplied

Brexit has had minimal impact on demand – monitoring closely

Strong fundamentals;
- banks are lending
- interest rates low
- demand strong

High barriers to entry;
- HCA engagement
- frameworks
- planning

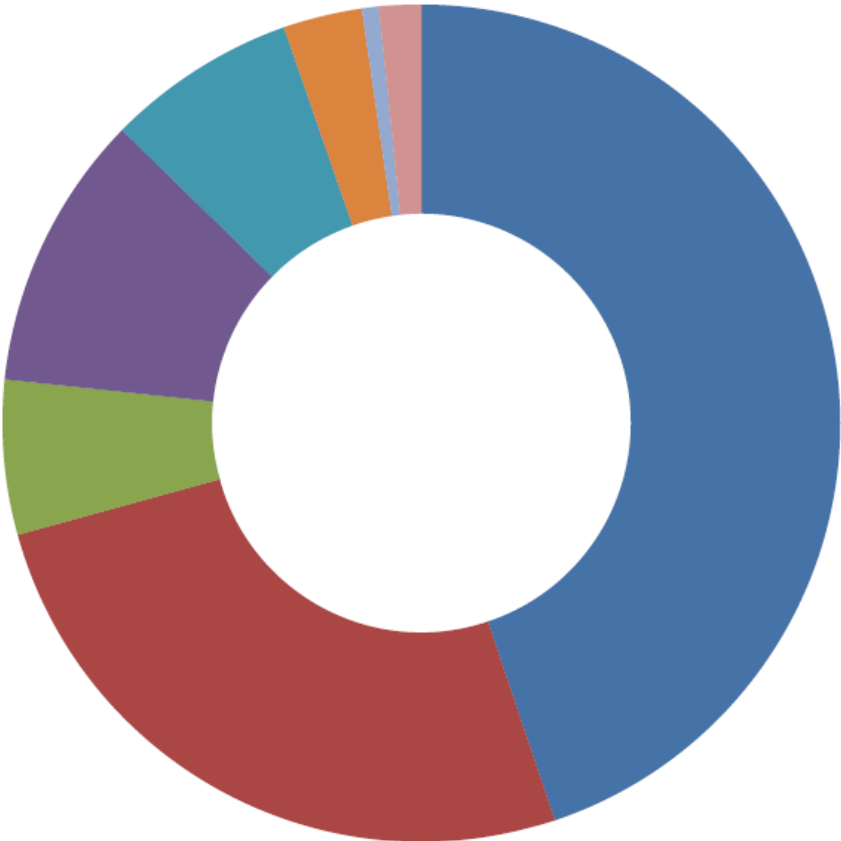
Kier is well positioned to provide the public sector housing requirement

Kier is well placed to become the partner of choice



Thames Valley Housing Association
Geeta Nanda – Chief Executive

TVHA tenure



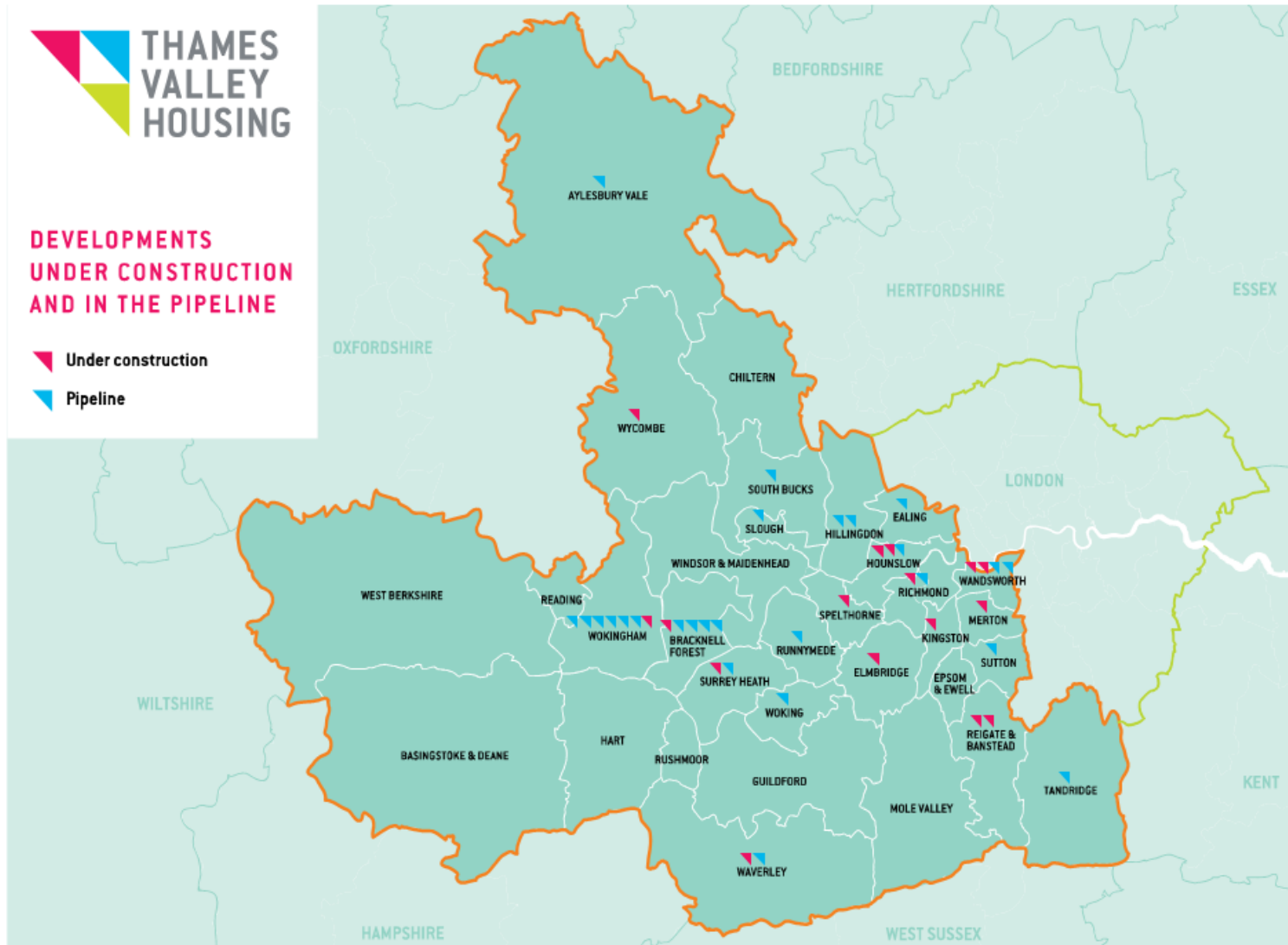
- General Rented & Other Housing
- Shared Ownership
- Key Worker Loans
- Key Worker NHS
- Leaseholder
- Student Accommodation
- Market & Intermediate Rent
- Fizzy

Where TVHA operate

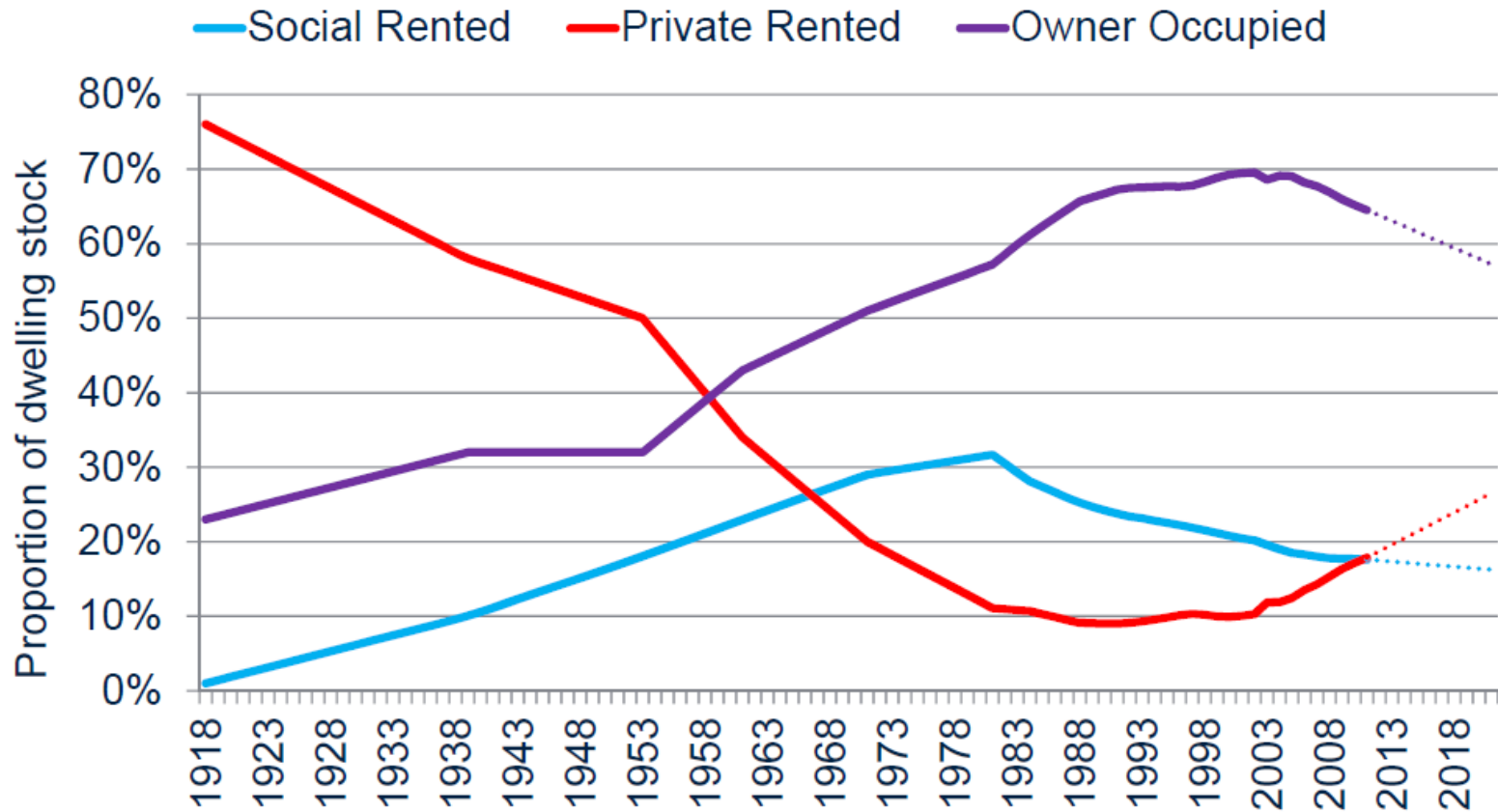


DEVELOPMENTS UNDER CONSTRUCTION AND IN THE PIPELINE

- Under construction
- Pipeline

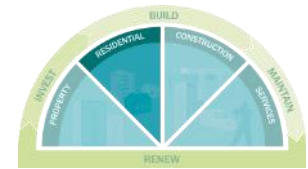


How housing tenure has changed

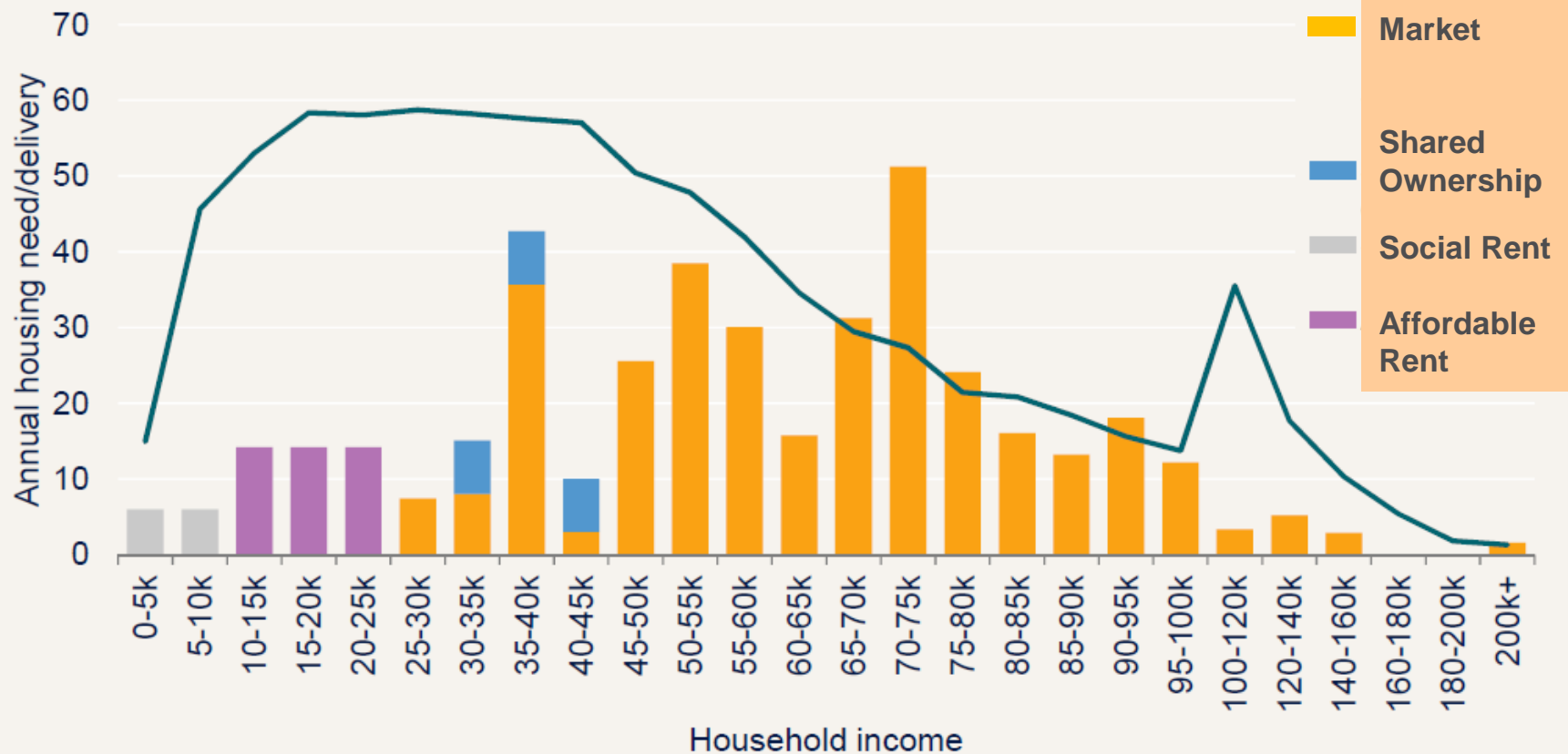


Source: CLG & Savills Research

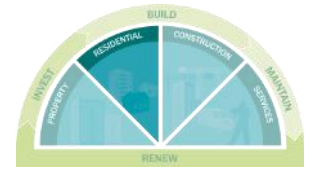
Affordable housing supply profile



Source: Savills



Housing need is huge



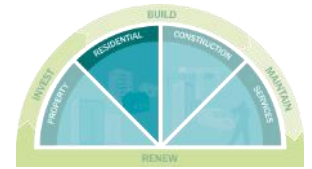
- 3.3m 20-34 year olds living at home with parents.
- In 10 years, owner occupation amongst 25-35 year olds has fallen from 59% to 36%.
- 1.4m on social housing waiting list.
- We need homes of all tenures.

What's happening out there?



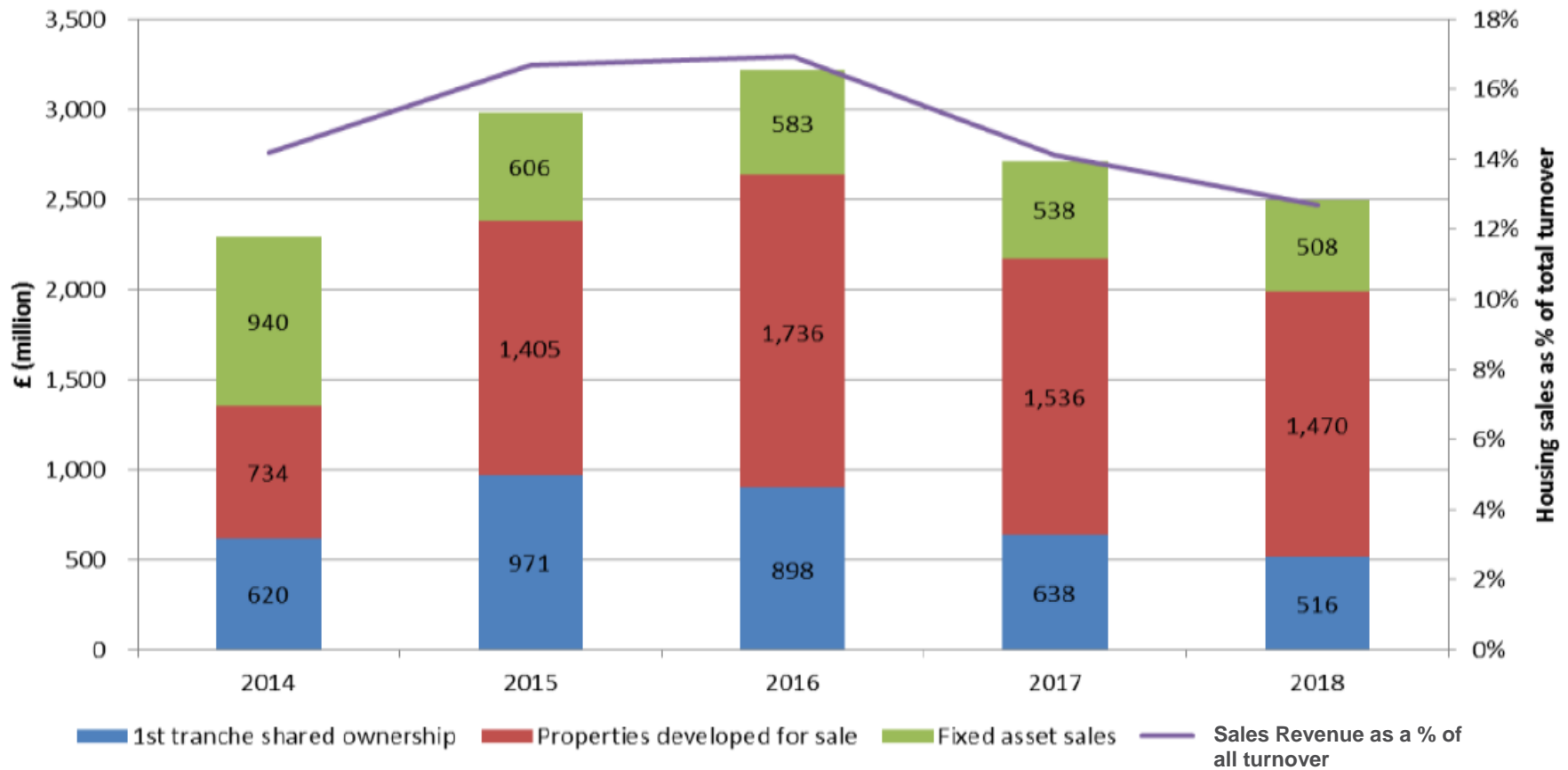
The Strugglers

Government landscape

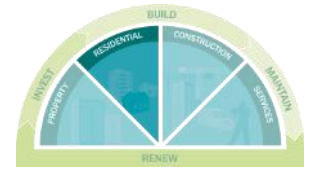


- Rent cuts – 1% a year for 4 years
- Regulatory changes:
 - Freedom to dispose of assets
 - Merger without consent
- Regulatory standards focus on:
 - Governance
 - Viability
- Autumn Statement has given us more money for affordable housing
- Want more homes and cost efficiency

Housing Association response – more market sales



TVHA delivery & partnerships – 1,500 per annum



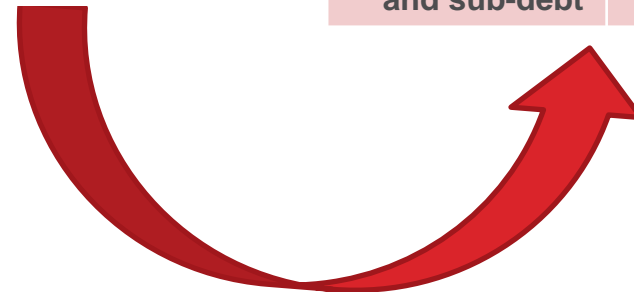
Kier joint venture



IN

TVHA	Kier Group Plc
<ul style="list-style-type: none"> Management capability PPP track record Local landlord presence Financial capacity Long-term appetite Patience! 	<ul style="list-style-type: none"> Construction capability PFI track record Established supply chain Financial capacity Development appetite

Jointly owned SPV



OUT

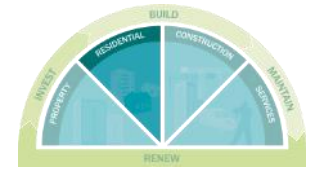
Investment	Learning
<ul style="list-style-type: none"> <u>Social returns</u> 224 social rent >75% family homes <u>Financial returns</u> 147 market sale SPV equity and sub-debt 	<ul style="list-style-type: none"> Setting up and operating a JV Project finance – Leveraging long-term value Risk management



Case Studies

Chris King – Managing Director, Kier Living Central

Case studies: Silver Court, Brownhills, West Midlands



- Strong long-term relationships with Walsall MBD and Walsall Housing Group
- The 6th in a programme of schemes
- 3.5 ha site, brief to build 101 apartments in 2 blocks and 6 elderly care bungalows
- Masterplan to maximise private sales to deliver best value cross subsidy solution
- Land owned entirely by WHG, no value required for the land receipt



Case studies: Silver Court, Brownhills, West Midlands



- Kier produced a masterplan for 157 new homes
 - 107 for Walsall Housing Group
 - 50 for open market sale
 - Surplus market sale proceeds cross subsidise the affordable housing
 - Monthly valuations for the balance of affordable housing cost
- Blended operating margin of 10%
- ROCE in excess of 20%
- Significant local employment program
 - Apprentices
 - Local supply chain targets



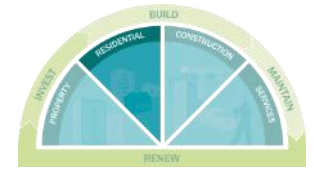
Case studies: Balaam Wood, Birmingham



- Partnership with Birmingham City Council
- Cleared sink estate in a socially-challenged environment
- Birmingham City Council required a masterplan to maximise affordable housing delivery with no capital outlay
- Utilised our core skills
 - Finding imaginative funding solutions
 - Regeneration and remediation
 - Selling homes in a socially-challenged environment
 - Understanding and working with the local community



Case studies: Balaam Wood, Birmingham



- Kier master-planned 400 new homes
 - 128 affordable homes to Birmingham City Council
 - 272 for open market sale by Kier
 - Affordable housing completely cross subsidised by private sale
- Scheme delivery over 6 years, 2 years early
- ROCE in excess of 20%
- Blended operating margin 9%
- Significant local employment programme
 - 50 new apprentices
 - Local supply chain targets
- Blueprint for further schemes





Kier Residential
John Anderson - Executive Director

Kier is uniquely well placed...



...to provide an unrivalled breadth of service

- The UK residential estate is in chronic under-supply
 - Mixed tenure housing development has not kept pace with demand
 - Housing waiting lists will take more than 40 years to clear at current build rates
- Kier can provide an end-to-end solution for our clients
 - Funding, development, building and maintenance
 - Targeting 10% operating margin





Q&A



Appendix

Residential performance

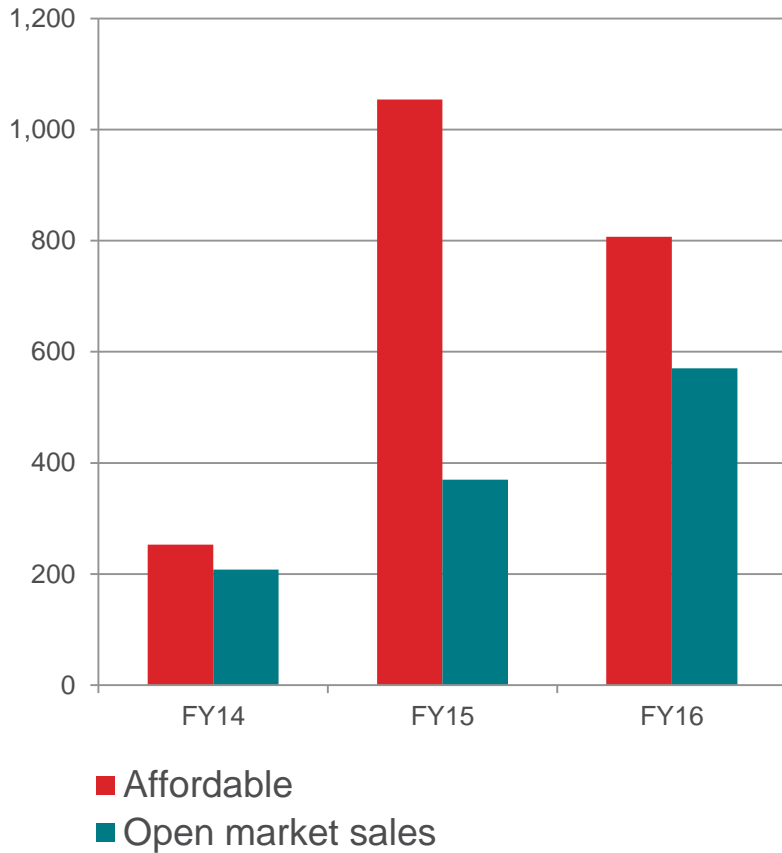


	Year ended 30 June		Change %
	2016 £m	2015 £m	
Revenue			
Mixed tenure	187	115	+63
Private (Kier owned land)	166	142	+17
Total	353	257	+37
Underlying operating profit¹			
Mixed tenure	6.0	4.8	+25
Private (Kier owned land)	14.3	6.4	+123
Total	20.3	11.2	+81
Average capital²			
Mixed tenure	(39)	(43)	-9
Private (Kier owned land)	(192)	(220)	-13
Total	(231)	(263)	-12
Return on Average Capital (ROCE)			
Mixed tenure	15%	11%	
Private (Kier owned land)	7%	3%	
Total	9%	4%	+5
Speculative land bank - units	3,279	3,413	-4

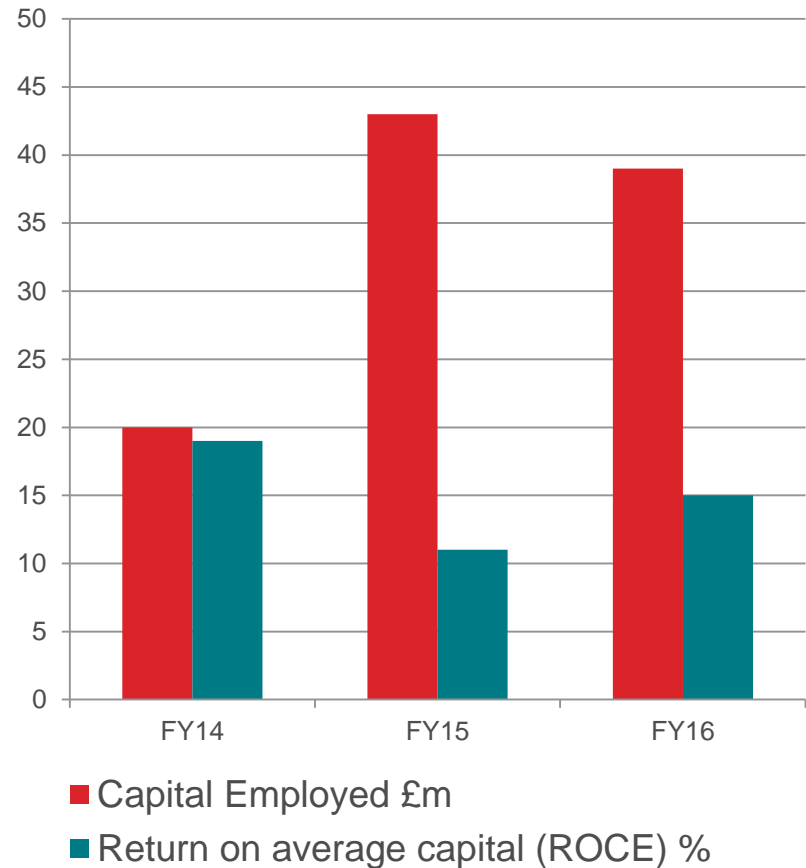
Mixed tenure performance



Mixed tenure Completions mix



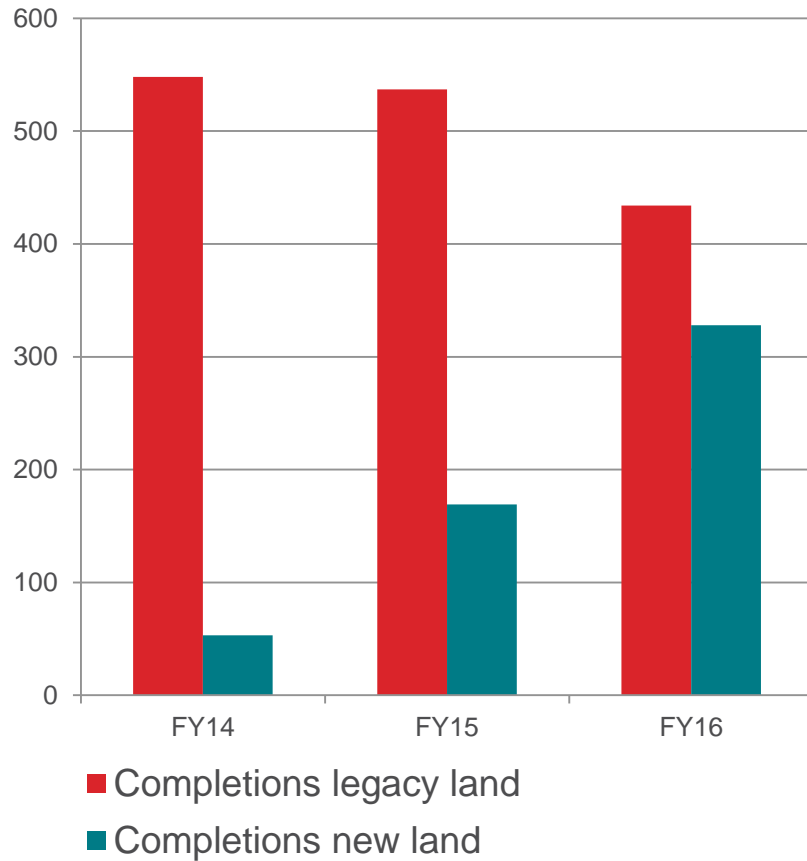
Profitability



Private residential performance



Completions Kier landbank



Profitability

