



Focusing on sustainable delivery

Kier Group plc Annual Report and Accounts 2015

Kier is a leading property, residential, construction and services group. We operate across a range of sectors including defence, education, health, housing, industrials, power, property, transport and utilities.

The Group employs over 24,000 people in its operations in the UK, the Caribbean, the Middle East, Hong Kong and Australia.

Our vision

Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

Our values

Enthusiastic

We make things happen: we are resourceful problem-solvers, who enjoy what we do and get the job done

Collaborative

We work together: we consult to reach the right solution and as a team achieve more

Forward-thinking

We look ahead: we positively challenge the way we do things to excel, we care about our customers and the service we provide



Find out how we will achieve our strategic goals

– page 16 onwards

Front cover: The Mersey Gateway project, one of Kier's infrastructure projects, uses innovative construction techniques including the creation of a temporary bridge and moving scaffold system to improve access to the bridge over the water.

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Financial Statements

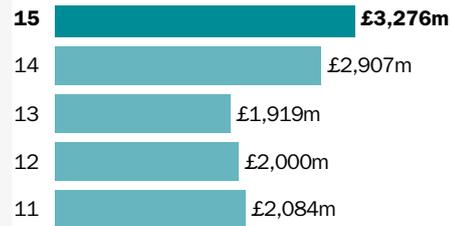
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Financial highlights

- Group revenue² of £3.3bn up 13%
- Underlying operating profit^{1,2} of £103.7m (2014: £87.3m)
- Underlying earnings per share^{1,2,3} of 96.0p (2014: 87.5p) up 10%
- Net debt position of £141m ahead of expectations (June 2014: £123m)
- Full-year dividend increased by 20% to £47.3m (2014: £39.4m)

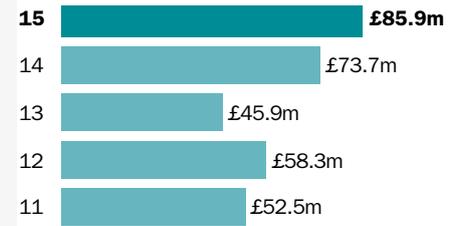
£3,276m

Group revenue² (£m)



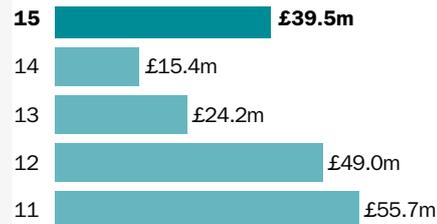
£85.9m

Underlying profit before tax^{1,2} (£m)



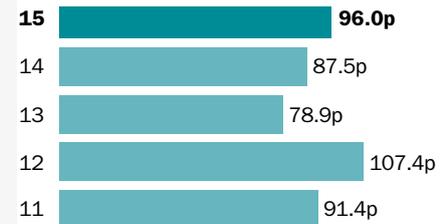
£39.5m

Reported profit before tax² (£m)



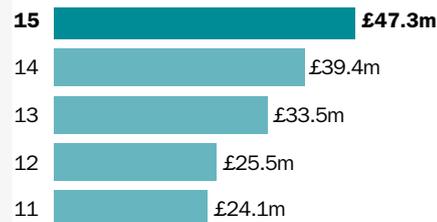
96.0p

Underlying earnings per share^{1,2,3} (p)



£47.3m

Total dividend (£m)



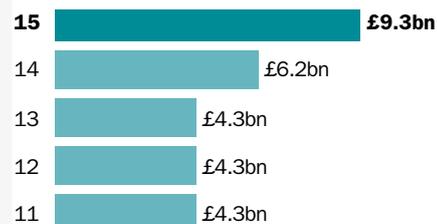
55.2p

Dividend per share³ (p)



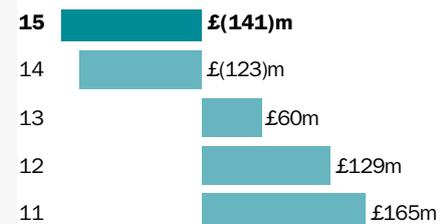
£9.3bn

Order book (£bn)



£(141)m

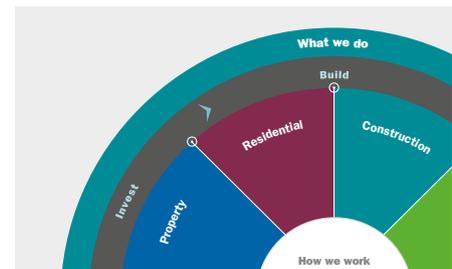
Net (debt)/cash balances (£m)



Essential read



Chief Executive's strategic review page 6
Haydn Mursell answers the key questions about Kier's business



Our business model page 14
Kier's breadth of capabilities provides a unique offer for clients

¹ Stated before non-underlying items; see note 4 to the consolidated financial statements.

² Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.

³ Restated for the bonus element of the rights issue associated with the Mouchel transaction; see notes 11 and 24 to the consolidated financial statements.

Kier at a glance

Kier offers a breadth of capabilities enabling us to bring together the right skills from across the business to provide an integrated offer to our clients.

Property

pages
38 to 40

The Property division encompasses property development and structured finance. The division operates across a number of sectors but particularly the industrial, commercial, retail and leisure sectors as well as the public sector.

£22.7_m

Underlying operating profit^{1,4}
(2014: £16.0m)

£(82.9)_m

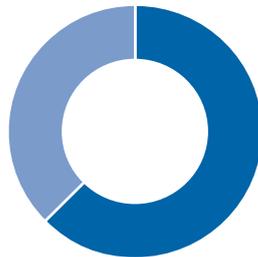
Average capital³
(2014: £(61)m)

81

No. of employees
(2014: 63)

Revenue

- Property development
- Structured finance



Our capabilities

- Asset management
- Bespoke occupier solutions
- Joint ventures
- Owner occupiers
- Partnerships
- Project development
- Property development
- Project investment
- Regeneration
- Structured finance

Residential

pages
41 to 43

Kier Living, our residential business, includes private house building and affordable mixed tenure housing partnerships. Its clients include local authorities, housing associations and the private rented sector.

£11.2_m

Underlying operating profit^{1,4}
(2014: £7.7m)

£(262.7)_m

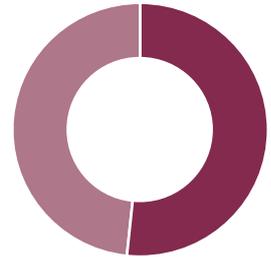
Average capital³
(2014: £(233)m)

613

No. of employees
(2014: 348)

Revenue

- Private house building
- Mixed tenure housing



Our capabilities

- Affordable housing
- Living space
- Mixed-use communities
- Private residential housing
- Regeneration

¹ Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements.

² Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.

³ Equates to average net debt.

⁴ Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

Where we operate

The Group operates internationally in the following geographies:

- UK & Ireland
- Middle East
- Australia
- Hong Kong
- Caribbean



Construction

pages 44 to 48

The Construction division comprises the UK building and civil engineering businesses and the international business. The division has an established position on strategic frameworks supported by its regional building presence and strong local supply chain partners. Kier is a sector leader in the education, healthcare and transport markets.

£37.7m

Underlying operating profit^{1,2,4}
(2014: £30.2m)

£3.3bn

Order book
(2014: £2.5bn)

2.2%

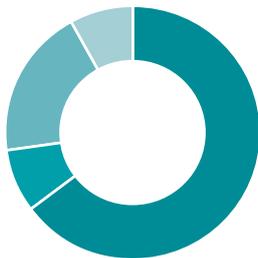
Underlying operating margin^{1,2,4}
(2014: 2.0%)

5,856

No. of employees
(2014: 3,720)

Revenue

- Building
- Major projects
- Infrastructure
- International



Our capabilities

- Building
- Civil engineering
- Construction management
- Engineering design
- Interiors and refurbishment
- Mechanical and electrical
- Rail services
- Technical services

Services

pages 49 to 53

The Services division comprises capabilities in highways maintenance (both local authority and strategic highways), utilities, housing maintenance, facilities management and environmental services. The recently acquired activities of Mouchel's consulting and local authority business processing operations, recently renamed Kier Business Services, are also included.

£58.0m

Underlying operating profit¹
(2014: £53.3m)

£6.0bn

Order book
(2014: £3.7bn)

4.7%

Underlying operating margin¹
(2014: 4.8%)

17,021

No. of employees
(2014: 10,813)

Revenue

- Highways
- Utilities
- Housing maintenance
- Facilities management
- Consulting
- Other



Our capabilities

- Design consultancy
- Energy management services
- Environmental services
- Facilities management
- Highway maintenance and management
- Housing maintenance
- ICT and back-office services
- Utilities services
- Waterway services

Chairman's statement

“I am pleased to report 2015 was another year of solid growth, building on the trend of previous years.”

£47.3m

Full-year dividend
(2014: £39.4m)

96.0p

Underlying earnings per share^{1,2,4}
(2014: 87.5p)

Group revenue¹ for the year ended 30 June 2015 increased by 13% to £3.3bn (2014: £2.9bn) and underlying operating profit^{1,2} increased by 19% to £103.7m (2014: £87.3m). Overall, underlying operating margins^{1,2} were robust at 2.2% in the Construction division (2014³: 2.0%) and 4.7% in the Services division (2014: 4.8%), in line with expectations. The Property division made a significant contribution with underlying operating profit² of £22.7m (2014³: £16.0m) and the Residential division also performed well, with underlying operating profit² of £11.2m (2014³: £7.7m).

Underlying profit before tax^{1,2} for the year of £85.9m (2014: £73.7m) and underlying earnings per share^{1,2} of 96.0p (2014⁴: 87.5p as adjusted for the effect of the rights issue associated with the Mouchel transaction) were both in line with expectations.

We remain focused on our five-year strategy, Vision 2020, and its strategic goals which are aimed to increase the Group's profitability and scale of operations both organically and through acquisition, whilst continuing to improve the quality of our earnings.

In June 2015, the Group completed the acquisition of Mouchel, the international infrastructure services and business services group, in line with the Group's Vision 2020 goal to be top three in its chosen markets and thereby accelerating the delivery of the Vision 2020 growth strategy. The acquisition brought together Mouchel's leading position in the strategic highways services market and Kier's presence in the local authority roads market. As such, it positions Kier as the sector leader in the growing UK highways maintenance and management market.

Having increased the Group's size over the last two years, we are focused on continuing to improve the quality of our earnings and are simplifying and restructuring our business, investing in our future growth. Consequently, in early July 2015 we disposed of our fleet & passenger services business and our UK coal mining business has been prepared for sale.

Dividend

As a result of the acquisition of Mouchel, the proposed final dividend in respect of the year ending 30 June 2015 has been adjusted to take into account the increased number of shares in issue following the completion of the rights issue. To reflect the Board's continued confidence in the Group, a total dividend for the year of £47.3m, a 20% increase (55.2 pence per share)⁴, is proposed. Subject to shareholder approval, the final dividend of 36.0 pence per share will be paid on 27 November 2015 to shareholders on the register at the close of business on 25 September 2015. A scrip dividend alternative will also be available.

The Board

As the Group continues to grow, it is important that we look at the composition of the Board. During this year, a number of senior management changes took place including Haydn Mursell formally taking up the role of Chief Executive in July 2014.

In January 2015, Bev Dew joined the Board as Finance Director. In March 2015, Nigel Brook (Executive Director – Construction and Infrastructure Services), Nigel Turner (Executive Director – Developments and Property Services) and Claudio Veritiero (Group Strategy and Corporate Development Director) joined the Board, reflecting the increased size and breadth of the Group. It was particularly pleasing that three of these four appointments were internal. As a consequence of this reorganisation, Steve Bowcott, Chief Operating Officer, left the Board and the business at the end of April 2015. These appointments are a strong addition to the Board ensuring the Group has the range of skills, experience and expertise at Board level to deliver its five-year strategy, Vision 2020.

On 31 July 2015, it was announced that Justin Atkinson will join the Board as a non-executive director with effect from 1 October 2015. With over 20 years' experience at Keller Group, of which 15 years were as Chief Finance Officer and then Chief Executive, Justin has a deep knowledge of the construction sector and operating internationally. I would like to welcome Justin to the Board.

¹ Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.

² Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements.

³ Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

⁴ Restated for the bonus element of the rights issue associated with the Mouchel transaction; see notes 11 and 24 to the consolidated financial statements.

Our people

As the Group increases in size, it is important to develop consistent and efficient working practices across our teams. We believe our values – enthusiastic, collaborative and forward-thinking – enable us to work effectively in partnership with our clients. I would like to thank all of our people for their commitment, professionalism and hard work during this year.

Outlook

I am pleased to announce we have delivered solid growth and increased profitability. Economic confidence is returning to our core markets and, furthermore, the acquisition of Mouchel represents a major step in accelerating the Group's five-year strategy.

All our divisions have performed well. In Property, the market remains strong and we have ample support from funders and other investors. Following its expansion, our Residential division is well-placed to help address the national shortage of affordable housing. In Construction, the regional building business has an established position on public and private sector frameworks and our infrastructure business is benefiting from continued greater investment by the UK Government in infrastructure in the medium term, and internationally, the Middle East pipeline is strengthening. Our Services division will benefit from the £700m AMP6 contracts secured during the year and the Mouchel acquisition has made Kier the sector leader in the UK highways management and maintenance sector. We are committed to offering a full, integrated approach to our clients by maximising the breadth and combination of capabilities available in the Group, assisting them to address the budget challenges they face.

We continue to simplify the portfolio and restructure our businesses and invest in our future growth. We continue to improve the quality of our earnings to reflect the changing demands of our markets. With a £9.3bn order book, a strong balance sheet and continued progress on our Vision 2020 goals this year, we look forward to the future with confidence.



Phil White
Chairman



Phil White
Chairman

Governance highlights

The Governance Report on pages 60 to 111 provides details of our approach to governance and how it supported the delivery of our Vision 2020 strategy during 2015. Key highlights of the year included:

Nomination Committee

- Monitored the induction of a new non-executive director, Kirsty Bashforth;
- Recommended the appointment of the four new executive directors appointed during the year; and
- Led the search relating to the appointment of Justin Atkinson as a non-executive director.

[Read more in the Nomination Committee Report on pages 74 and 75.](#)

Risk Management and Audit Committee

- Oversaw PwC's first year as the Group's external auditor following shareholder approval at the 2014 annual general meeting ('AGM');
- Assisted the Board to ensure that the information presented in this annual report is 'fair, balanced and understandable'; and
- Monitored the Group's risk management and internal control processes.

[Read more in the Risk Management and Audit Committee Report on pages 76 to 81.](#)

Safety, Health and Environment ('SHE') Committee

- Oversaw the behavioural safety self-assessment across the Group, setting a benchmark against which to measure and continuously improve the Group's SHE performance; and
- Worked with management to ensure that the Group's SHE strategy supported the delivery of Vision 2020.

[Read more in the Safety, Health and Environment Committee Report on pages 82 and 83.](#)

Remuneration Committee

- Implemented the Company's remuneration policy which was approved at the 2014 AGM with respect to all changes to the Board during the year; and
- Reviewed the level of base salaries payable to the executive directors in the 2016 financial year, together with the bonuses payable with respect to the 2015 financial year.

[Read more in the Remuneration Report on pages 84 to 106.](#)



Read our Governance Report for more

– pages 60 to 111

Chief Executive's strategic review

Chief Executive Haydn Mursell answers the key questions about Kier's business and performance and outlines his vision for the future.

Q: What are the main issues you have focused on during your first year as Chief Executive?

At the start of the year, I set out four priorities – safety, performance, people and communications.

You simply cannot compromise on safety and I am pleased to report a 14% year-on-year reduction in Accident Incidence Rate ('AIR') across our UK businesses. We encourage everyone to think about safety, to recognise that it is 'in their hands' and that we are all responsible for continuous improvement. We have set a target AIR of zero for the Group by 2020, so there is still improvement to be made. We are also interested in our people's health and wellbeing. Our wellbeing programme, launched this year, helps them to think effectively about diet and exercise and generally how to look after themselves.

Performance is about maintaining discipline and focus. We are focused on sustainable delivery and when we deploy cash or resources into the operations, we need to generate an appropriate return for the risk we assume. With the increase in the Group's size over the last two years, we are continuing to focus on improving the quality of our earnings and simplifying our portfolio of businesses to match the changes in the market and our clients' demands. As the economy improves, it is critical that we stay disciplined in our approach to capital allocation, our return on capital criteria and risk management. Accordingly, we have sold our fleet & passenger services business and propose to sell our UK mining operations, where discussions with a potential buyer are progressing well.

In order to deliver Vision 2020, we need to attract and retain quality talent. There is currently high demand for good people in our markets, so this requires special attention. While the strength and reputation of our brand helps us to attract people, we need to continue to be attractive to prospective recruits by offering them training, development and career opportunities. This year, we have established a number of sector-specific academies in our highways, utilities and housing maintenance operations, to ensure we have the skills required.

More broadly, we are committed to investing in our future generation of talent by developing early careers programmes across the business, spanning a range of career entry levels from school leavers to post-graduates. We continue to recruit and develop a high number of apprentices, day release and undergraduate placements and this year introduced a Level 3 Kier Technical Apprenticeship programme working in partnership with the Learning Skills Partnership. Upon successful completion, there is the option to progress onto the Kier Degree programme which has been in operation for the past eight years. We are investing heavily in the recruitment and development of graduates, both from construction and non-construction disciplines, with 115 graduates recruited during 2015. We are also proud members of The 5% Club.

Vision 2020

<p>Safety</p> <hr/> <p>Zero Harm</p> 	<p>Profit growth</p> <hr/> <p>>10% CAGR</p> 
<p>Shareholder return</p> <hr/> <p>Progressive dividend</p> 	<p>Customers</p> <hr/> <p>+90% Customer satisfaction</p> 
<p>Property</p> <hr/> <p>>15% ROCE</p> 	<p>Residential</p> <hr/> <p>>15% ROCE</p> 
<p>Construction</p> <hr/> <p>>2.5% EBITA</p> 	<p>Services</p> <hr/> <p>>5% EBITA</p> 



How we will achieve our vision
– pages 16 and 17

Q&A

with **Haydn Mursell**
Chief Executive



It's important that everyone is kept informed about our performance and plans, so that they know what Kier stands for, our achievements and also understand how they can contribute to the Group's success. Our annual employee roadshows and regular news updates and forums give our people a chance to learn about our progress and for the leaders of the business to listen to feedback.

During this first year, I have met a number of our clients and employees and will continue to do so. It is through this level of engagement that I can understand clients' issues and concerns. I have also visited many of our sites and I continue to be impressed by the dedication and commitment of our teams, including those from our supply chain partners. I would like to thank our employees for all their hard work and support during the year.

Q: What aspects of this year's results pleased you the most?

I am pleased that Kier experienced solid growth this year. Once the uncertainty surrounding the outcome of the UK General Election reduced, the confidence of our investors and clients improved, which is reflected in our revenue and our growing pipeline of opportunities.

We continued to progress towards Vision 2020, increasing the Group's underlying profitability and scale of operations both organically and through acquisitions, and we increased the quality of our earnings.

Our Property division continues to successfully invest the Group's free cash flow in predominantly non-speculative developments and our Residential division is benefiting from the supply and demand imbalance in UK housing. In Construction, the quality of opportunities is improving, with the risk profile of new work lower than it has been for some years. In our Services division, we now have leading positions in important growth sectors such as highways, through the acquisition of Mouchel, and a new £200m maintenance contract with Northamptonshire County Council, an existing client, as well as in the utilities sector through the asset management plan ('AMP') water bidding cycle, where we secured significant new business with clients such as Anglian Water and Thames Water.

Q: Where can you improve?

We offer a range of capabilities designed to deliver a breadth of services for clients, to suit their requirements. This year we have shown our ability to do this with new partnerships with Northamptonshire County Council and with Staffordshire County Council and the Police and Crime Commissioner for Staffordshire. These partnerships illustrate how clients want to work more broadly with the Group and provide opportunities for us to promote the full range of services to our clients. It is anticipated that the requirement for a broad set of capabilities, particularly by local authorities and affordable housing providers, will increase following the Government's recent Budget.

£3.3bn
+13%

Group revenue¹
(2014: £2.9bn)

£103.7m
+19%

Underlying operating profit^{1,2}
(2014: £87.3m)

£9.3bn

Combined Construction and Services order book
(2014: £6.2bn)

¹ Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.

² Stated before non-underlying items; see note 4 to the consolidated financial statements.

Chief Executive's strategic review continued



Mouchel – a compelling strategic rationale

On 8 June 2015 the Group acquired MBRL Limited ('Mouchel') for £265m. The transaction:

- Creates a sector leader in the growing UK highways management and maintenance market;
- Provides an integrated capability in the highways and utilities sectors;
- Further enhances Kier's service offering in the local authority markets; and
- Expands the Group's international presence.

Q: What will drive growth to 2020?

We are pleased with our progress against Vision 2020 and we expect the business to grow in the coming year. Looking over the medium term, infrastructure is a particular growth market. The UK Government has committed to investing in the transport system, with a particular focus on building roads and railways. Meanwhile, the impending reduction in the UK's power generation capacity will also need to be addressed to service current and future power demands. We have capabilities in these sectors through our highways capital works and maintenance activities; in rail, on Crossrail, our new joint venture for HS2 and through our broader relationship with Network Rail. In power, we have an established track record in the sector, having built 10 of the last 14 gas-fired facilities in the UK, and we are currently working at Hinkley Point C nuclear power station.

In the services market, the budget challenges for local authorities continue to drive a need for new ways to manage assets, value and how best to deliver essential local services. This is expected to lead to an overall increase in outsourcing opportunities that require a broad range of capabilities of the type we can provide.

Our Residential division seeks to address the continuing shortage of affordable UK housing stock as overall production remains well below the Government's annual targets. Recent changes to the 'Right-to-Buy' policy and funding for registered providers is likely to lead to greater public and private collaboration on housing schemes which the Group is equipped to address. We believe that the affordable housing market will see the greatest growth and with the public sector already owning land suitable for housing, our aim is to assist them in deriving value through housing development.

The growth we envisage will require us to continue to invest in the Group and particularly in our systems. The planned investment in our human resources and finance change programme, BOOST, will underpin continuing improvement in the efficiency of our operating model which over time will increase the efficiency of our operating model which will consequently increase the quality of our margins.

Q: What balance sheet structure do you need to deliver Vision 2020?

As set out in Vision 2020, we are committed to achieving a net debt/EBITDA ratio of 1.0x by 2017 and we are well on course to meet that commitment. An appropriate level of debt is tax efficient and allows us greater flexibility to invest for the future, to generate attractive returns for a modest cost while interest rates are historically low. Our target balance sheet structure is designed to be both efficient and prudent.

Q: What does the Mouchel acquisition mean for Kier?

Following the acquisition of Mouchel, Kier has become the sector leader in the growing UK highways management and maintenance market, at a time when the new UK Government has significantly increased the highways budget. More than 70% of Mouchel's business is in strategic highways which, when combined with Kier's highways work with local authorities, provides considerable opportunities for synergies.

We are now well-positioned to benefit from the new Road Investment Strategy which sets out a long-term investment of £17bn to maintain, renew and enhance the strategic road network between 2015-2020, with annual expenditure increasing from £2.9bn to £4.1bn over the same period. Our greater presence in the highways sector also accelerates our strategy for growth more broadly across the infrastructure market. When looking across the infrastructure, construction and maintenance activities, the business now has total revenue of more than £1.5bn in the UK, with further significant growth opportunities.

Mouchel also has an outsourcing business, principally aimed at local authorities and public sector clients, such as the emergency services. I am excited by the opportunities that Mouchel's local authority clients could provide to us. I am also pleased that we are progressing with the smooth integration of the Mouchel business and have retained its core management team, ensuring continuity and stability.

Q: What are the risks to your growth?

The detailed risks to our business are set out in more detail later in the report. However, our focus needs to remain on being selective in bidding for new work. To deliver our growth plans, we need to maintain our disciplined tender processes and contract risk management practices. We believe that our pre-contract risk management process is good and this, combined with highly capable delivery teams, is essential to the Group's sustained performance.

We therefore need to have the right people to bid for and deliver contracts and to service our clients, together with the leadership and drive to develop our business. I believe the new Board appointments announced this year give us the experience and expertise to do this.

Q: The construction sector has a history of problems. How have you avoided them?

At Kier, we have made a significant investment in managing pre-construction risk, reflecting the fact that this is the stage where it is important to discover, and resolve, potential difficulties with a project. We also carry out a large number of projects with relatively modest capital values and shorter durations, which helps to reduce the overall risk. A significant number of our projects are 12 to 15 months long, which limits our exposure to inflation or other supply chain risks. In addition, our position on a large number of frameworks enables us to manage risk effectively.

Q: How about the international business?

We anticipate our international business will deliver 10% of the Group's revenues by 2020. However, we recognise that, although higher margins are available to us in overseas markets, risk management remains imperative. We will, therefore, remain selective in our international expansion. In Hong Kong, work is progressing on our two major rail contracts for Mass Transit Railway Corporation ('MTRC'), although these remain challenging, with project delays being experienced across the entire rail programme, and we are working with MTRC to resolve these issues. We have a long-established track record of operating in the Caribbean and the Middle East. The market in Dubai is currently providing us with a number of opportunities and our Middle East presence has been further strengthened by the capabilities offered by Mouchel. The acquisition of Mouchel has also brought new operations in Australia, principally through the DownerMouchel joint venture.

Q: What makes Kier's culture special?

When the business listed in the 1990s, a large percentage of the shareholders were employees, who naturally had a keen interest in our performance and direction. Our people remain very engaged with the Group's performance and strategy.

We are focused on creating a consistent culture across the Group following the recent acquisitions. When we bought Mouchel and May Gurney, we spent considerable time understanding their cultures and whether they complemented Kier's. We also focus on inducting employees into the Group, so that they have an understanding of our core values, how we work and what is expected of them.

Chief Executive's strategic review continued

Q: How does Kier benefit from its broad capability offering?

Kier offers a breadth of capabilities. The key is being able to bring together the right skills from across our businesses, to solve our clients' problems by providing an integrated offer. Our breadth of services means we can help clients to finance, plan, design, construct and maintain their assets. One of my responsibilities is to ensure that Kier's senior managers are familiar with our full range of capabilities, so they can help clients to understand how we can best support them.

The Group's breadth of services also provides a natural hedge, as the financial performance of our divisions is typically different through the economic cycle. This is particularly highlighted by the Group's resilient performance during the recent recession where different parts of the Group were able to support other parts.

Q: Why do clients choose Kier?

Our aim is to deliver what we say we will deliver, to budget, to time and to the right quality. We believe that our integrity means that clients know what they will get from us, as demonstrated by the level of repeat business we secure. We are also selective about the projects we bid for and we believe that this bidding discipline is absolutely key to maintaining sound risk management processes.

Q: Why is your share price lower than before the Mouchel acquisition and rights issue?

The share price was affected by the rights issue under which we issued 39,646,692 new shares at 858 pence each to fund the Mouchel acquisition. This reduced the average value of our shares. However, shareholders had the right to buy new shares at the discounted price or they could sell their rights if they decided not to take them up.

Q: What should we expect from the Group over the next 12 months?

My priority remains to deliver Vision 2020. Following the acquisition of Mouchel, we are integrating those operations, ensuring we deliver the annualised pre-tax cost synergies of £10m from 2017. In addition, we now have an increased infrastructure presence and this creates additional opportunities.

As the economy improves and our pipeline of work increases, we need to maintain our bidding discipline and remain strict about our financial hurdles and other key performance indicators. We will also consider divesting those businesses which do not meet those standards. We are focused on continuing to improve the quality of our earnings and will be reviewing our portfolio of businesses to reflect the changing demands of the market.

We remain committed to maintaining our integrated approach, offering our services to help clients to address their budgetary challenges. Following strong results in 2015, we are able to look to the future with confidence.

Our 2015 Strategic Report, from pages 1 to 59, has been reviewed and approved by the Board of directors on 16 September 2015.



Haydn Mursell
Chief Executive

Creating sustainable value

Below we summarise the key elements that lead to the creation and protection of sustainable value. Our focused and integrated approach has already delivered tangible returns for shareholders.

We create a sustainable business by aligning our strategic priorities, managing our performance to address the risks and opportunities that we face and using our experience and ambition to drive our growth through our strategic priorities.



Context

Our markets

We are operating in a generally positive market overall, with good pipeline visibility. Investment in key market sectors, such as education and infrastructure, together with changes in public sector spend, provide a positive backdrop for our growth plans.

 Page 12

Our business model

Vision 2020 is our strategic plan to grow the scale, coverage and profitability of the Group, delivered through our business model.

 Page 14

Our vision

Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

 Page 16

Our strategic priorities

1. Operate a safe and sustainable business



4. Provide sector-leading customer experience



2. Accelerate growth to be a top three player in our chosen markets



5. Attract and retain highly motivated, high-performing teams



3. Achieve top quartile performance and efficiency



6. Ensure the business is supported by investment in technology and back-office systems



Measuring success

Key performance indicators ('KPIs')

We have performed well against the majority of our KPIs against which we monitor our performance.

 Pages 26 and 27

Risk management, principal risks and uncertainties

The Group has well-established risk management and internal control systems to manage the principal risks and uncertainties it faces.

 Pages 32 to 37

Our markets

We are operating in a generally positive market environment overall, with good pipeline visibility. The following information summarises some of the key macro-economic and market trends affecting our business and contains data and information extracted without material adjustment from publicly available information or sources.¹

The UK currently provides a positive environment for Kier. The UK economy is growing at a consensus annual rate of 2.6% and is forecast to grow at similar rates to 2020. A new majority Government provides policy stability. Government tax revenues have risen by 25% since 2009/10. Household spending rose by 4.2% in the year to June 2015 and business investment is up by 5.7% year-on-year. The UK was the third largest country for foreign direct investment in 2014 and continues to be attractive.

Overall, the UK economy has proved resilient to the effects of recent global political and economic instability.

Real GDP growth scenarios



UK infrastructure spend has strong visibility.

Infrastructure improvement is central to the UK Government's policy, as a means of creating further economic growth and to address historic under-investment. Strategic highways has confirmed spend of c.£21bn to 2021 and, within the regulated utilities, the water sector alone will see £44bn of investment to 2020. Future spend on the rail network, where £38bn of expenditure in the 2014–2019 control period had previously been announced, is now subject to a Government review.

The Budget announcement of a Roads Fund to support a second Roads Investment Strategy, plus additional planned major infrastructure schemes, such as HS2 and Crossrail2, all add to a significant long-term pipeline of opportunity.

The UK Government's austerity programme provides an opportunity to differentiate. The pace of fiscal consolidation has eased, reducing its drag on growth. The austerity programme clearly creates a challenge for our public sector clients, particularly local government, which has an obligation to provide services to the public.

Over the last five years we have worked with a number of clients to develop better use of their property assets and innovative ways of delivering services within the budgets and resources they have available.

Kier offers a breadth of capability. Our breadth means we can help clients to finance, plan, design, construct and maintain their assets, and to optimise whole-life costs. We will continue to engage with the public sector in this way.

Activity in our main international markets remains resilient to commodity market fluctuations. In the Middle East, investment is being driven by fundamental drivers, notwithstanding the fall in oil prices. These include the need to diversify their economies and create infrastructure, healthcare, schools and housing for their growing populations.

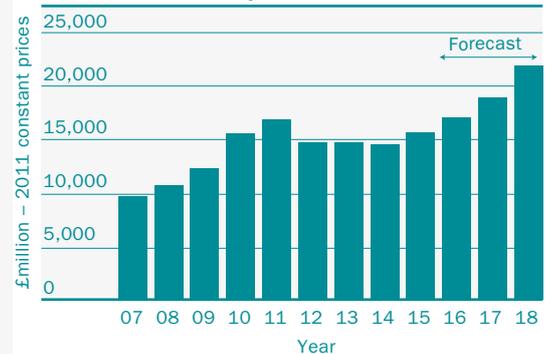
The Australian economy is forecast to grow, driven by population growth, improving Government finances, increased freight, and further expansion of the road network. The federal government is focusing on infrastructure spending, and, in particular, transport infrastructure to stimulate the 'post-resources' economy – an A\$11.6bn Infrastructure Growth Package was included in the 2014 Budget.

Demographic changes are creating opportunities. In the UK, the number of people aged over 65 has increased by 17% since 2003 and is forecast to increase further. The ageing population will continue to drive expenditure on health, care services and a changing profile to residential property needs.

Almost 60% of population growth for the next 25 years is forecast to come from the net effect of more births than deaths. This population growth will create demand for more schools, universities and better social infrastructure.

At the same time social and lifestyle changes, such as the increase in single person households (5.5% growth over the last 10 years) and older people downsizing, will increase the demand for housing and change the type of housing demanded.

Total infrastructure output



¹ Sources: HM Treasury; HMRC; Office for National Statistics; UK Trade & Investment; Capital Economics; Al Arabiya/Saudi Gazette; Savills; Construction Products Association; Financial Times; Institute for Fiscal Studies; BDO; CBI.

Property

We have significant opportunity to further penetrate property markets by combining our non-speculative development offering, our equity investment capability and our integrated offering.

- Low interest rates and improved market confidence are key influences on future market growth.
- At a regional level in the UK, private sector commercial development activity is growing in the South East, London and the regions. As at July 2015, the South East saw its highest level of activity for 16 months, whilst London and the rest of the UK were seeing the fastest rate of expansion since May 2014 and October 2014 respectively.
- In terms of sectors, industrial/warehouses, retail and leisure and commercial offices have all reported consistently strong growth.

Residential

Operating in the housing development and building markets, our residential housing activities will benefit from the growth in the housing market, driven by an acute shortage of housing.

- Estimates suggest that there is a requirement for 240,000 new homes per annum in England, compared with current output levels of circa 140,000 per annum.
- Housing demand has been increasing, with the RICS new buyer enquiries balance at its highest level for more than 12 months. This is being supported by rising earnings and improving consumer confidence.
- Completed housing transactions are forecast to grow year-on-year beyond 2017.
- Government measures to ease the planning permission framework and release public sector land for housing development, together with the proposed extension of Right to Buy to housing associations are expected to increase further the demand for affordable housing construction.

Construction

We have a leading position in regional building and in the health and education marketplaces, with a growing presence in infrastructure and defence.

- Overall construction activity is growing faster than the UK economy; total construction output grew at 9.5% in 2014 and is forecast to grow by 21% from 2014 to 2019.
- Annual expenditure on infrastructure construction is expected to rise by 72% cumulatively from 2014 to 2019.
- Annual construction expenditure in the commercial sector is forecast to rise by 23% from 2014 to 2019, driven particularly by activity in offices. Whilst London accounts for about a third of the activity in offices, growth is also forecast in other major cities and the regions.
- Construction expenditure on education and health forecast to grow by about 13% from 2014 to 2019.
- Overall defence spending is now protected at 2% of GDP, with the detail of the breakdown subject to the 2015 Strategic Defence and Security Review ('SDSR'). It is expected that the SDSR will continue to support an active development of the MOD's property estate to meet changing operational needs.
- Construction in GCC countries is expected to show double-digit annual growth until the end of 2016 to US\$126.2bn.

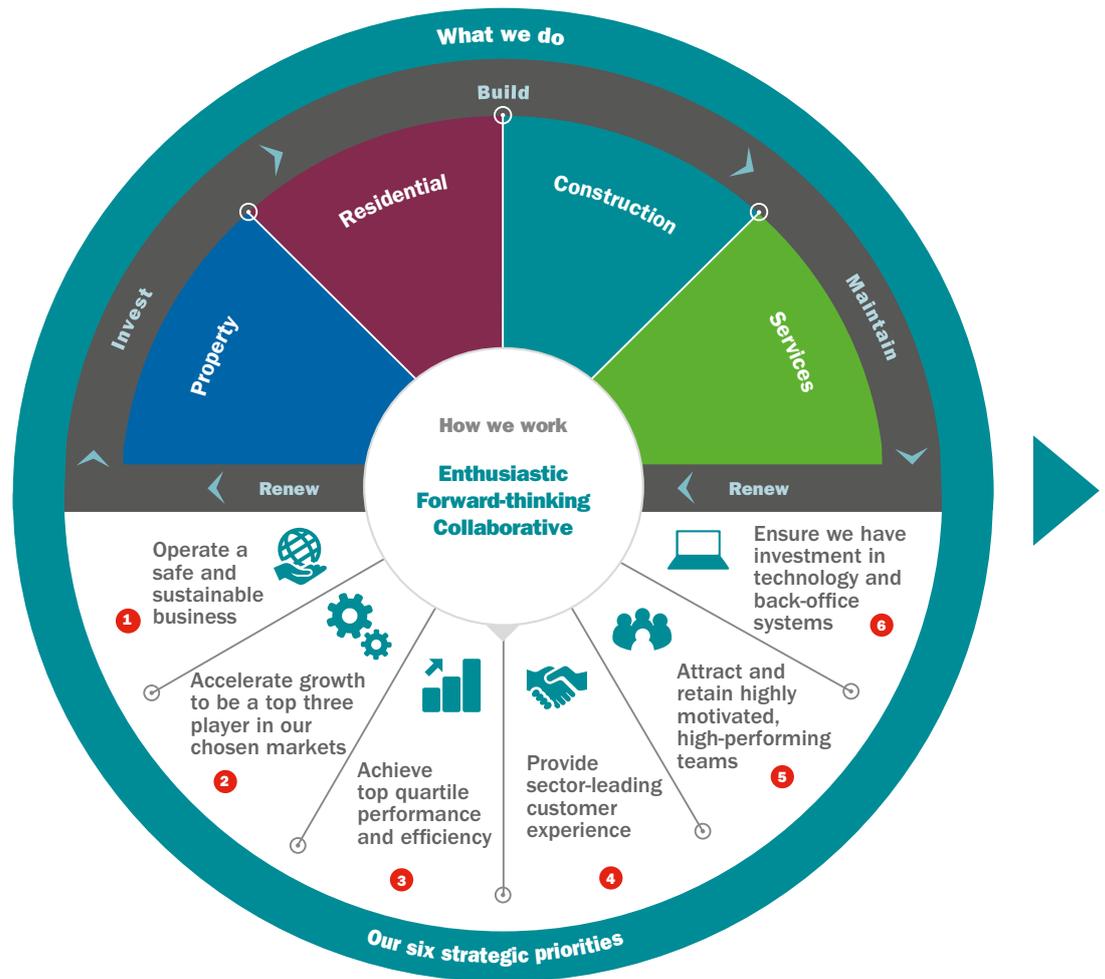
Services

In the UK, we have good positions in the highways maintenance, water utilities and housing maintenance markets, an established position in facilities management and opportunities in adjacent markets. We now also have a leading position in the Australian roads maintenance market.

- The strategic highways market has significant visibility under the Roads Investment Strategy ('RIS') for 2015 to 2020 and the announcement of a second RIS funded by a new Roads Fund.
- The water utilities market has mandated spend by Ofwat, under AMP6, of £44bn from 2015 to 2020.
- 'Austerity' measures continue to put pressure on public sector budgets, creating both challenges and opportunities for outsourcing and innovation. The details of the UK Government's Spending Review on specific central and local government budgets are due to be published later in 2015. However current estimates suggest that non-protected areas of expenditure will face cuts of 12.6% between 2015 and 2020.
- In Australia, total outsourced expenditure on highways and arterial roads maintenance is forecast to grow by 22% from 2015 to 2019 and reach A\$2.2bn, in part driven by a predicted increase in the outsourcing rate from 55% to 63%.

Our business model

Vision 2020 is our strategic plan to grow the scale, coverage and profitability of the Group. Our business model provides the foundation and rationale underlying this growth strategy.



Our strategic priorities

We will build continually on our business model to enable us to achieve our growth plans and implement our Vision 2020 strategy.

This requires us to invest in and develop further the core capabilities of the Group. In particular, we will seek to maintain strong client relationships by

delivering sector-leading customer experience. It also requires highly motivated teams aligned to our strategy and our values, and robust technology and back-office systems to underpin our efforts.

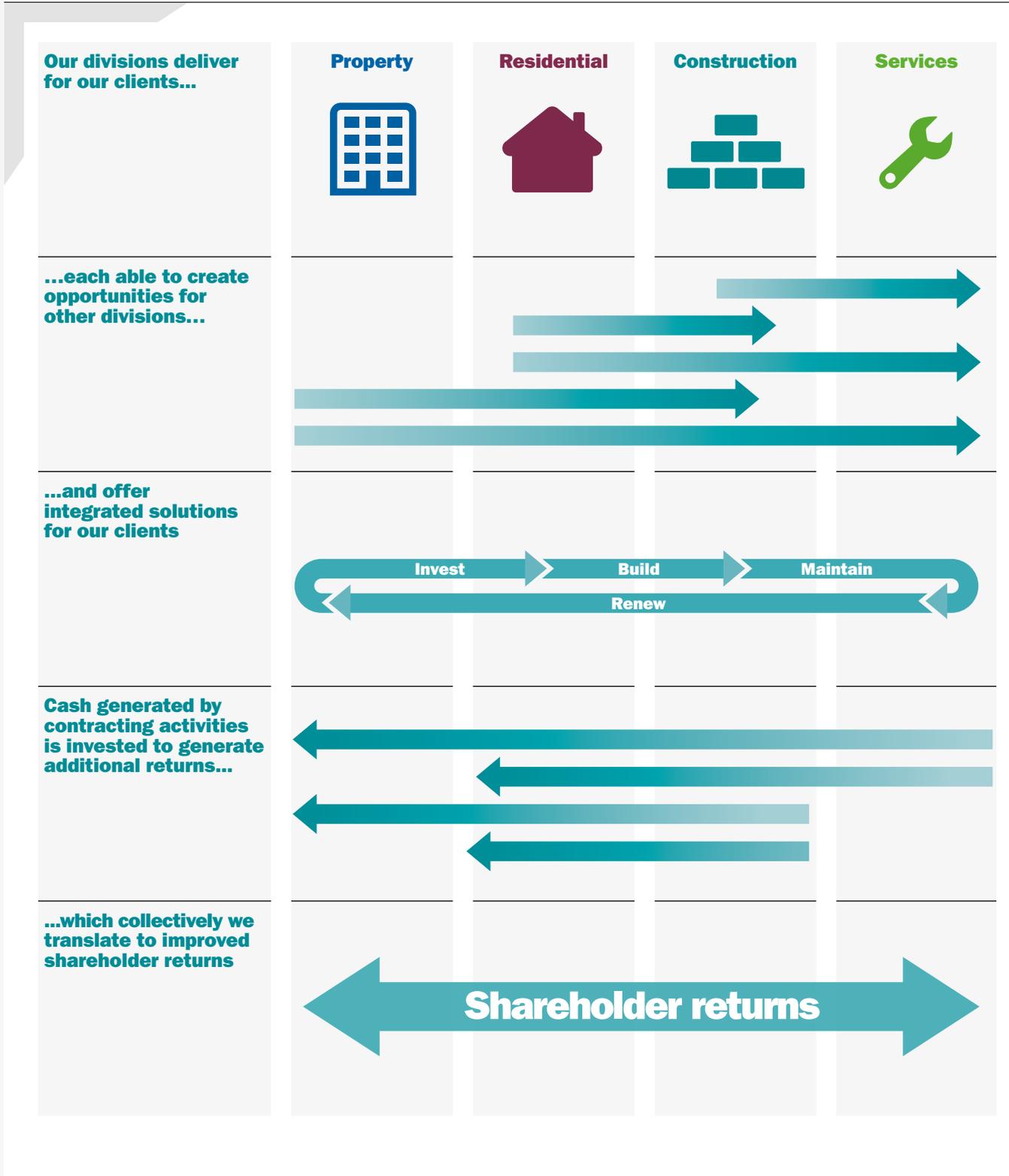
Our strategic priorities are focused on building such capabilities.

Our integrated offer

The Group has a broad range of capabilities across its four divisions. This breadth means we can help clients to fund, plan, design, build and maintain their assets to optimise their whole-life cost. The Group's structure works because our customer-focused approach enables us to develop opportunities for our different business streams through our strong and strategic client relationships.

This approach means that we can maximise our returns using the cash generated by low capital intensive/cash-generating businesses to invest in high capital-intensive activities elsewhere in the Group.

In this manner we create value for our customers and for our shareholders.



Progress against our vision and strategic priorities

Our vision

Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

Our strategy – double-digit growth

Our strategy aims to leverage our integrated offering to deliver double-digit compound annual growth in operating profit through to 2020.

To maximise the opportunity for growth we need to exploit and invest in the development of our integrated offering.

To achieve Vision 2020, we have identified six imperatives:

1. Operate a safe and sustainable business;
2. Accelerate growth to be a top three player in our chosen markets;
3. Achieve top quartile performance and efficiency;
4. Provide sector-leading customer experience, for clients and for their customers;
5. Attract and retain highly motivated, high-performing teams; and
6. Ensure the business is supported by investment in technology and back-office systems.

Our priorities are set at a Group level with detailed targets and performance plans identified for each objective. These are further aligned and co-ordinated through the business plans of our four divisions.

Strategic priorities



Operate a safe and sustainable business



Accelerate growth to be a top three player in our chosen markets



Achieve top quartile performance and efficiency



Provide sector-leading customer experience



Attract and retain highly motivated, high-performing teams



Ensure we have investment in technology and back-office systems

90%

Clients totally or mostly satisfied with Kier

87%

Kier's BiTC score tracking year-on-year improvement in sustainability

Achievement in 2015

- A 14% improvement in our UK business, offset in part by an increase in reportable incidents in our international business
 - An enhanced behavioural safety programme introduced and being rolled out across all our businesses
 - Health and Wellbeing programme launched in July 2015
 - Launched our new Strategy for a Sustainable Business ('Responsible business, positive outcomes')
-
- A Group-wide sector business development capability is now established
 - Continued to penetrate our target market sectors, with strong positions in the transport, education, health and local government sectors
 - Leading player in the UK and Australian strategic highways maintenance markets
 - Acquisition of Mouchel has accelerated our growth and our position in key markets
 - Expanded our internal capability to target and deliver acquisition opportunities
-
- Improved our underlying profit margins from 3.0% to 3.1%
 - Continued to extend our governance framework across the Group
 - Established a Group performance scorecard
 - Disposal of our Fleet & Passenger Services business
-
- 90% of customers surveyed were totally or mostly satisfied with Kier
 - Completed year 1 of our 'Listen, Act, Measure' programme to measure client satisfaction in a consistent way across Kier
 - Focused improvement activity on key stages and milestones of the customer journey
 - Introduced a customer experience toolkit to support bespoke action plans for specific clients
-
- During 2015 we focused on investment in our human resources capability and resources across the Group
 - Management development programmes reviewed and conclusions built into a new approach to talent management
 - Pulse employee engagement surveys introduced and taking place in between full surveys to give managers regular snapshots of progress
 - Increased our graduate and apprentice intake and launched skills academies in our utilities, highways maintenance and housing maintenance businesses
-
- A new customer relationship management system has been successfully deployed to support business development and has had a high level of take-up
 - Developed multiple Kier 'apps' to support the effectiveness and efficiency of business operations, with more being developed
 - Planning and development of the new ERP system and HR and finance change programme

Targets for 2016

- Develop our approach to occupational health and associated reporting metrics
 - Integrate Mouchel into the Kier corporate responsibility programme
 - Embed the Group's Strategy for a Sustainable Business within all our businesses
 - Driver risk management programme to be rolled out
-
- Integrate Mouchel
 - Develop strong growth opportunities in our strategic and key accounts
 - Evaluate new market sectors and take steps to enter where appropriate
-
- Disposal of our UK mining business
 - Create synergies from the Mouchel acquisition
 - Roll out standardised reporting processes across all businesses
 - Review the Group's KPIs to ensure ongoing relevance and effectiveness in supporting the management of the business
-
- Introduce consistent method to measure satisfaction and experience for our clients' customers
 - Roll out client specific excellence plans to enhance the experience of our clients and their customers
 - Continue to embed a culture of customer excellence
-
- Develop a compelling employee offer and clear career pathways to recruit, develop and retain talented people across the Group
 - Implement a single talent and succession management approach
 - Design and implement a refreshed leadership development offer, aligned to the Kier values
 - Implement a single performance management approach that clearly links individual and team objectives to the Kier strategic objectives
 - Continue to build insight and take action to improve employee engagement
-
- Implement and commence the roll-out of the initial phases of our new ERP system and HR and Finance change programme
 - Integrate Mouchel
 - Implement next generation frontline systems for Services division and progress roll-out
 - Increase the penetration of Building Information Modelling ('BIM') across our Construction division

Our strategy in action

How this supports Vision 2020:

The acquisition brings together Mouchel's leading position in strategic highways services and Kier's presence in the local authority roads markets making Kier the sector leader in the growing highways market.



Mouchel

Creating a sector leader in a growing market

The UK's roads are a vital part of our national infrastructure and key to economic growth. As a result, the UK Government has significantly increased its investment in this area, making highways an even more attractive market for Kier.

We have built a strong position in maintaining local authority roads and have begun to develop our business in the strategic roads market, through our place on Highways England's collaborative delivery framework and the award of a £475m Smart Motorway Programme contract, in joint venture.

Our acquisition of Mouchel has transformed our position, making us a sector leader in highways management and maintenance and accelerating our progress towards Vision 2020. Critically, Mouchel's strength in strategic roads complements our local authority business and gives us access to Highways England as a strategic partner. Highways England will invest £17bn in the strategic road network over the next five years, increasing the scale of opportunity available to us.

Mouchel's commitment to excellent customer experience is second to none. The highways business was rated as the top key supplier out of 20 companies for alignment with Highways England's strategy. In addition, their Area 3 Asset Support Contract ('ASC'), which covers central southern England, was the best performing of Highways England's ASCs over the last 12 months. Given the quality of Mouchel's delivery and relationships, ensuring we retained its key people has been an important element of our acquisition integration process.



How this supports Vision 2020:
The UK infrastructure market remains a key sector for Kier in view of greater Government investment.



Mersey Gateway

Delivering one of the UK's largest infrastructure projects

Merseylink, our consortium with Samsung C&T Corporation and FCC Construcción SA, is constructing the Mersey Gateway project – one of the largest current infrastructure initiatives in the UK.

The centrepiece is a new six-lane toll bridge over the River Mersey, between Widnes and Runcorn, in addition to upgrades to more than 9km of local roads. The project is expected to create more than 4,600 permanent jobs and contribute in excess of £60m a year to the local economy by 2030.

The project uses innovative construction methods including the creation of a temporary bridge and using a moving scaffold system to improve access to the bridge construction site. This increases efficiency and reduces the amount of costly work that must be undertaken on the water. We are also carefully protecting the local environment, using clearly defined access routes to protect nearby sites of special scientific interest.

We are committed to recruiting people from the local area and to employing apprentices, to develop the skills young people will need for a career in the construction industry.

A joint venture is a learning and personal development opportunity for our staff. Through regular two-way communication and senior management visits, our joint venture employees bring that learning back into Kier.



Staffordshire County Council

How this supports Vision 2020:

The partnership accesses the Group's broader property and strategic asset management capabilities, providing opportunities for growth through our integrated offering.



Staffordshire Strategic Property Partnership

Delivering a broad and integrated service through a unique partnership

This year the Staffordshire Strategic Property Partnership was formed by combining public and private sector skills and knowledge.

Kier began a ground breaking 10-year strategic property partnership with Staffordshire County Council and Staffordshire's Police and Crime Commissioner ('PCC'). Together, the public sector partners own around 450 properties in the county. Drawing on our broad integrated capabilities in development, regeneration, disposal, acquisition, construction, asset management and facilities management, the partnership will unlock value from surplus land and empty or under-used buildings, revitalising them to offer new jobs, homes and developments.

As part of the partnership, the Council and PCC provide details of their property assets, local needs and access to other public sector organisations, which may have adjoining assets that can be pooled with the partnership's projects. Kier has appointed staff to the partnership, to provide expertise and advice on those assets, developing and managing the partners' property assets. In return, we have first option on providing services to the partnership, subject to demonstrating value for money criteria.

The partnership is unique in the breadth of services it commissions and in its operation. Its long-term strategic approach also allows it to undertake socially valuable projects that are not immediately financially viable on a stand-alone basis, by combining them with projects that achieve greater financial benefits. In its first year, the partnership will consider nearly 40 projects, ranging from facilities management and a new headquarters for the police to residential schemes including new office accommodation for the Council.

In addition, the county's other public sector bodies can use the partnership to deliver their property-related initiatives. This will save them time and money compared with traditional procurement and access to expertise.

In summary, the partnership can achieve outcomes that neither party could deliver alone, improving overall client satisfaction.

How this supports Vision 2020:

Increasingly projects involve teams from across the Kier businesses. Kier holds a 16% equity stake in VIEW 58 and is also the development manager. This development showcases the capabilities of both our Construction and Property teams.



Victoria Embankment – VIEW 58

Enhancing our returns through sustainability

By taking an integrated and sustainable approach to construction, we develop attractive buildings that give our customers a great customer experience and a unique final product.

Through our joint venture with FORE Partnership, the pan-European real estate investment club for family offices and private investors, we are constructing, jointly funding and developing VIEW 58, a highly sustainable office building in central London. The project draws on capabilities from Kier's Property and Construction divisions.

Sustainability is at the heart of the strategy being developed for the building. VIEW 58 is sensitive to the local area, being on the River Thames Embankment in London. The development is retaining the existing façade while creating highly functional contemporary offices behind it, diverting 99% of the demolition waste from landfill and recycling it. The building is designed to exceed a BREEAM Excellent rating and incorporates green technologies such as a sophisticated building management system and solar photovoltaic panels that generate power from both their tops and undersides.

VIEW 58's integrated vision of sustainability goes beyond traditional carbon reduction. For example, the design provides collaboration and exhibition space, which will enable organisations using the building to come together and to engage with the community.

In July 2015, FORE and Kier announced VIEW 58's sale for £50.95m to Nesta, a charity with a mission to drive innovation in the UK. The building's sustainability standards were an important factor in Nesta's decision. VIEW 58 supports Nesta's values, reducing its running costs and providing a hub for organisations committed to innovation.

Key performance indicators

Financial¹

Key performance indicator	Aim	Progress in 2015	Comment
Revenue growth²	Align to strategic priorities Deliver annual revenue growth in line with Vision 2020	 <p>15 £3,351m</p> <p>14 £2,938m</p> <p>13 £1,958m</p>	In the year we achieved 14% growth in revenue, principally through organic growth, and achieved leading positions in the UK and Australian strategic highways markets.
Underlying operating profit³	Maintain consistent underlying operating margins	 <p>15 £103.7m</p> <p>14 £87.3m</p> <p>13 £52.6m</p>	19% growth in underlying operating profit, in line with our target to produce double-digit compound annual growth in profits through to 2020.
Underlying EPS⁴	Achieve long-term growth in EPS	 <p>15 96.0p</p> <p>14 87.5p</p> <p>13 78.9p</p>	We are focused on shareholder value and maximising sustained growth in EPS. Underlying EPS has increased 10% in the period.
ROCE ('Return on Capital Employed')⁵	Achieve ROCE above the Group's target of 15%	 <p>15 13.9%</p> <p>14 14.8%</p> <p>13 24.4%</p>	Return on average capital employed decreased during the year reflecting an increase in underlying operating profit offset by net investment in the business and its systems, the acquisition of Mouchel and contributions to pension deficit recovery plans. As previously stated, the May Gurney and Mouchel acquisitions are targeted to deliver 15% ROCE by 2016 and 2017 respectively.
Underlying economic profit^{5, 6}	Achieve steady growth in economic profit	 <p>15 £39.5m</p> <p>14 £33.6m</p> <p>13 £30.1m</p>	We seek to generate returns that exceed our weighted average cost of capital, currently 8.6%, to ensure we add value from our investment decisions. The economic profit generated increased by 18% in the year to £39.5m as a result of increased profitability and a reduced cost of capital.
Debt cover⁷ (net debt/underlying EBITDA)	Ensure debt is conservatively managed to improve cover towards a medium-term target of 1.0x underlying EBITDA	 <p>15 1.6x</p> <p>14 1.7x</p> <p>13 n/a</p>	Moving towards our medium-term target of 1.0x EBITDA due to improved working capital management and increased profit.
Shareholder return	Maintain a progressive dividend policy and deliver annual growth	 <p>15 55.2p</p> <p>14 57.6p</p> <p>13 54.3p</p>	The total dividend declared this year is £47.3m which represents a 20% increase on 2014 (£39.4m). On a statutory basis, the dividend per share ('DPS') paid and proposed in the year of 55.2 pence is a 4% reduction on the restated DPS in 2014, as a result of the calculation of DPS assuming that the shares in issue following the rights issue associated with the Mouchel acquisition in June 2015 had been in issue for the full 12 month period.

Strategic priorities

-  Operate a safe and sustainable business
-  Accelerate growth to be a top three player in all our markets
-  Achieve top quartile performance and efficiency
-  Provide sector-leading customer experience
-  Attract and retain highly motivated, high-performing teams
-  Ensure we have investment in technology and back-office systems

Non-financial

Key performance indicator	Aim Alignment to strategic priorities	Progress in 2015	Comment
Safety – accident incidence rate ('AIR')⁸		15  319	We have achieved a 14% improvement in our UK business, partially offset by an increase in reportable incidents in our international business.
		14  342	
		13  506	
Customer experience		15  90%	We have this year introduced a common and independently audited client satisfaction measure across all our businesses.
		14 n/a	
		13 n/a	
Employee engagement		14  63%	Full employee surveys are carried out biennially and the next survey will be in 2016. In between we carry out pulse surveys, the results of which in 2015 have indicated an improving level of engagement.
		14  77%	
		14  67%	
		14  48%	
		14  48%	
Employee retention		15  85%	In line with the experience of other UK businesses in 2014/15, as the economy recovered, the level of voluntary leavers increased in the year, but remains in line with industry averages.
		14  88%	
		13  90%	
Sustainability⁹		15  87%	In 2014/15 we have delivered significant improvements in our approach to stakeholder engagement and launched our new Strategy for a Sustainable Business.
		14  85%	
		13 n/a	

¹ Financial information in this table relates to continuing operations. Prior years restated to reflect the reclassification of the UK mining activities to discontinued operations.

² Group and share of joint ventures.

³ Stated before non-underlying items; see note 4 to the consolidated financial statements.

⁴ 2013 and 2014 have been restated for comparison, reflecting the rights issue associated with the acquisition of Mouchel.

⁵ During the year we revised our methodology for assessing capital employed to take account of the average capital employed at each month end during the year, rather than the balance at the end of the year. 2013 and 2014 have been restated for comparison.

⁶ We calculate economic profit by taking underlying operating profit³ and subtracting average capital employed, multiplied by the weighted average cost of capital.

⁷ Our measure of debt cover has been updated to measure net debt divided by underlying EBITDA (as a proxy for operating cash flow). Net debt includes finance lease obligations. The Group held a net cash balance of £46.1m as at 30 June 2013.

⁸ Accident statistics for 2013 and 2014 have been restated to include May Gurney, which was acquired in the 2014 financial year, on a pro forma basis in both years.

⁹ Business in the Community ('BiTC'), whose index we use, has recalibrated the index. We have reviewed this KPI, as we anticipated doing, and have restated 2014 using the new index.

Resources and relationships

Responsible business, positive outcomes

For Kier to achieve and sustain the ambitious growth plans set out in its Vision 2020 strategy, it is essential for us to address and mitigate each identified non-financial risk which could compromise our financial targets. Our full Corporate Responsibility Report for 2015, 'Enabling sustainable business' <http://www.kier.co.uk/crr2015>, expands upon this process.

In the year Kier has made great strides in evolving its Strategy for a Sustainable Business. This addresses and supports the changing dynamics of our broader,

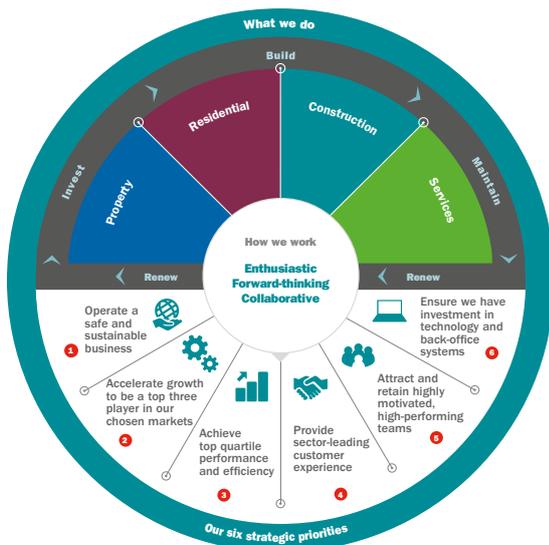
growing operations through a range of environmental and social measures, all integrated and aligned with the core non-financial strategic priorities, principal risks and opportunities and KPIs that underpin the Group's stated financial targets. These are now being embedded within our individual business streams for consistent, measurable delivery across the Group. We have identified six immediate priority areas shown opposite.

Through in-depth engagement we have ensured the issues being addressed by our corporate responsibility programme are of material importance to our main stakeholders, particularly employees, clients and shareholders. This will enable us to deliver resource efficiencies and sustainable growth in our chosen markets in a responsible and ethical manner.

Strategy for a sustainable business

Vision 2020

Our five-year strategy for a sustainable business, launched in 2015, addresses many of the non-financial strategic priorities, risks and KPIs identified in Vision 2020. Not only does the new sustainability strategy and its focus areas, listed in the table here, help to deliver the strategic priority to 'Operate a safe and sustainable business' but it also supports the other strategic priorities, particularly 'Provide sector-leading customer experience', 'Attract and retain highly motivated, high-performing teams' and 'Accelerate top quartile performance and efficiency'.



*Data related to non-financial performance does not include Mouchel for the period being reported.

Focus area



People and communities

- Safety, health and wellbeing
- Employee engagement and retention
- Diversity
- Training, education and apprenticeships
- Society and community



Environment

- Carbon
- Waste
- Water
- Biodiversity
- Environmental incidents



Marketplace

- Customer experience
- Citizenship and community engagement
- Sustainable supply chain
- Labour standards and human rights



Governance

- Material standards
- Stakeholder engagement
- Governance – Reporting and assurance
- Governance – Risk and opportunity
- Business ethics
- Reward scheme

Our core sustainability priorities for 2015/16

Safety, health and wellbeing

A target accident incidence rate of zero is Kier's top priority. The 'Visible Leadership' programme launched in July 2015 will challenge our business leaders to ensure they create an environment where everybody working on our behalf is safe.

Sustainable supply chain

We will develop relationships that satisfy our requirement for social and ethical procurement and to meet or exceed our clients' expectations. Social and ethical procurement lets us achieve our ambitions to respect the human rights of everyone connected to our business either directly or through the supply chain.

Customer experience

Our stakeholders identified their overall experience of dealing with Kier as being the most important issue to them. Delivering high levels of satisfaction to all of our customers is fundamental to our success as a business. Our 'Listen, Act, Measure' programme enables us to test, review and improve our performance to drive increased loyalty from our clients.

Mouchel

We are carefully integrating Mouchel into Kier's Strategy for a Sustainable Business – 'Responsible business, positive outcomes'. The integration will have a minimal impact on our day-to-day operations, but ensure we are all able to deliver our common goals as part of the Group's overarching strategy, Vision 2020.

Emerging legislation and regulations

The operating landscape constantly changes. Recent examples of new responsibilities include the Social Value and Modern Slavery Acts which we have responded to in our Strategy for a Sustainable Business – 'Responsible business, positive outcomes'.

Citizenship and community engagement

The reputations of Kier, our clients and our supply chain depend on how we deliver our services and engage with our stakeholders. We are in the process of developing a new code of conduct to help guide how we can make a positive contribution to the communities where we work.

2020 target	2014/15 progress*	Comments
Zero AIR	AIR of 319 (2014: 342). Introduction of All Accident Incidence Rate as a leading metric	This leading measure will help us identify the contributing factors and avoid the occurrence of serious accidents, creating a safer working culture
75% employee engagement rate	Pulse survey introduced to measure progress from 2014	The more engaged our employees are, the better the customer experience which directly contributes to our future business success
70:30 male to female ratio for new recruits	Baseline being established for new recruits	Increasing the diversity of new hires will have the fastest impact on our diversity mix overall
5 training days per employee	Baseline being established	This is a measure of our commitment to invest in the learning and development of our people
10% additional social value created	Methodology being prepared to allow consistent measurement of outcomes	We generate financial benefits for society. We aim to express this value more clearly
10% reduction from 2014 baseline (emissions/£)	2% reduction in intensity ratio achieved	Our focus on managing emissions is helping to control cost of fuel
30% reduction from 2014. Measure and report progress	Waste/£ increased but volumes recovered and recycled increased	Reducing waste helps to reduce environmental impacts and control costs
10% reduction from 2015 benchmark	Monitoring agreement reached with third party	Better monitoring will allow us to identify opportunities for more efficient use
1 Biodiversity Interest Group challenge per £50m of revenue	Monitoring system and procedures put in place. 22 challenge case studies completed (1 per £133m revenue)	We will continue to identify and realise opportunities to enhance biodiversity on our sites
25% reduction in All Environment Incidence Rate from 2015 benchmark	Monitoring system and procedures put in place	We will avoid major incidents by paying greater attention to near misses and minor incidents
90% client and customer satisfaction	90% of clients satisfied with Kier's performance. Net Promoter Score of +52 indicating high levels of loyalty	Delivering an excellent customer experience helps to secure future growth for Kier
80% (40/50) average score in Considerate Constructors Scheme ('CCS')	77% (38.25/50) achieved	We are planning to widen the CCS principles to our non-construction and international operations
Number of partners engaged in the Supply Chain Sustainability School	Increased by 10%	This helps us to work with a better qualified supply chain
Meet core principles of UN Declaration of Human Rights	Refreshed responsible procurement policy agreed. Initial standards to be launched in 2015/16	This helps Kier to meet its ethical responsibilities and comply with the Modern Slavery Act. The standards provide clear guidance for all our procurement activities for social and environmental issues
100% compliance with Kier material standards	Measure and report compliance	We will audit a sample of both our direct and sub-contract procurement
Annual independent review of our strategy by Business in the Community ('BITC')	One additional stakeholder engagement activity to understand their view of material issues	Kier will also be completing more detailed shareholder engagement
G4 – integrated reporting to Global Reporting Initiative ('GRI') G4 standard	Reported to GRI G3 C+ standard	Reporting to a common standard aids transparency and understanding of Kier's strategic approach
Quantify risk across non-financial measures	Identified critical non-financial issues	Non-financial issues can still have a financial impact, both positive and negative. The challenge is to identify the best ways to convert or express these impacts in our overall approach to risk management
Zero overdue whistle-blowing incidents	Review of Group code of conduct	Constant reviews of our business ethics policies ensure compliance with any new regulatory requirements and ensure our ethical approach to business and people
Reward scheme non-financial performance	Proposals under review	Closer alignment of rewards to non-financial performance better reflects the value of these issues to business sustainability

Our achievements in 2014/15¹

Environment

Breakdown of carbon emissions data

Relative emissions (intensity ratio) declined by 2% to 50.4 tonnes CO₂e/£1m revenue. This can in part be attributed to the consolidation of our permanent estate and the move to more efficient offices. Our absolute emissions increased due to the first full-year inclusion of May Gurney which we acquired in 2013. Our continued focus on the efficient use of energy in our business continues to see us move towards our target of a 10% reduction in emissions per £/revenue. Our ambition is to be able to assess and influence supply chain emissions to achieve the same.

Emission type	CO ₂ e tonnes 2013	CO ₂ e tonnes 2014
Scope 1: Operation of facilities	0	0
Scope 1: Combustion	113,399	129,756 (+14%)
Scope 2: Purchased energy	12,192	15,634 (+28%)
Total emissions	125,591	145,390 (+16%)

Greenhouse gas emissions intensity ratio	2013	2014
	51.5t/£m	50.4t/£m (-2%)

Turnover (£m)	2,439	2,885
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Supporting context:

- We have reported on emissions sources as required under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.
- We have excluded our Scope 1 fugitive emissions and we do not account for any share of any joint venture or joint agreements in our carbon footprints unless we are in majority control.
- Our dataset covers 92% of the total revenue of Kier. This is the figure that our emissions/£ are based on.
- The period of our report is 1 January 2014 to 31 December 2014 to mirror our reporting to the Carbon Disclosure Project.
- Our methodology has been based on the principles of the Greenhouse Gas Protocol. Conversion factors for electricity, gas and other emissions are those published by the Department for Environment, Food and Rural Affairs in 2014.

Breakdown of business construction, demolition and excavation waste

The amount of construction, demolition and excavation ('CDE') waste Kier Construction sent to landfill in 2014 increased from 8.2 tonnes/£100,000 revenue to 9.4 tonnes/£100,000 revenue.

Also, over the same period the amount of waste produced increased from 37.2 tonnes/£100,000 revenue to 44.5 tonnes/£100,000 revenue.

The percentage of CDE waste diverted from landfill increased from 78% to 79%.

Construction division – CDE waste data

Year	Tonnes of waste generated per £100k	Tonnes of waste to landfill per £100k	% of waste diverted from landfill per £100k
2012	52.3	9.7	81%
2013	37.2	8.2	78%
2014	44.5	9.4	79%

This dataset is for our Construction division only and represents 32% of our Group revenue. We estimate this accounts for more than 80% of all waste produced.

Data from SMARTWASTE for all businesses – CDE waste

Year	Re-used	Recycled	Landfilled
2013	39%	31%	29%
2014	40%	34%	26%
2015	41%	38%	21%

This data is collated from a sample representing 39% of Kier Group by revenue. We estimate this accounts for more than 80% of all waste produced.

Social

Diversity, equality and human rights

Kier's employment policies follow best practice and are created around equal opportunities for all employees irrespective of sex or sexual orientation, ethnicity, age, disability or marital status. Our constant is to recognise everyone as an individual, and that they have different needs but that they also bring different skills to our Group. We want employees to know they are working where they will be treated with dignity and respect and, as a consequence, feel enabled to make a contribution to Kier's success. Our various employment, ethics and procurement policies are written to protect the human rights of our employees and parties engaged with our business. There have been no related issues during the financial year.

Diversity of employees

	Male	Female
All employees	12,533 (80%)	3,180 (20%)
At senior manager grade	1,206 (93%)	84 (7%)
At director grade	5 (71%)	2 (29%)

Ethnicity²

White – 54%, Black and minority ethnic groups – 3%
Not stated – 43%

Community engagement

115,036
Employee hours
(2014: 161,799)

£2.2m
Equivalent value
of employee hours
(2014: £2.9m)

Kier calculates the value of time given by its employees to volunteering by using a nominal value for each hour of £31. Kier recognises that a percentage of staff time is given to training/supervising apprentices and uses a nominal value for each hour given to providing this support of £18. The hourly rates have been revised in line with the growth of the business which has seen a larger blue-collar workforce, which has resulted in the value of an hour's volunteering being reduced from £44 to £31 and the value of an hour given to support apprentices increasing from £16 to £18.

Considerate Constructors Scheme

Kier is an associate member of the Considerate Constructors Scheme. We use this independent scheme to assess the performance of our operational sites in the UK.

	Average Group score	Industry average
2014	37.62 (75%)	35.29 (71%)
2015	38.25 (77%)	35.74 (71%)
2020 target	40/50 (80%)	

¹ Data related to non-financial performance does not include Mouchel for the period being reported.

² Data is based on a spot audit of UK employees (excluding overseas and Mouchel employees).

Stakeholder engagement 2015

We have been developing our approach to the non-financial elements of our Strategy for a Sustainable Business – ‘Responsible business, positive outcomes’ (‘RBPO’). Through our engagement exercises with business leaders, employees, clients, shareholders and non-governmental organisations we sought to understand that these issues in RBPO were of most material importance in our relationship with them.

The final results shown in the figure below illustrate how our stakeholders ranked issues from low to high importance, though all are still relevant to how we operate our business, directly contributing to our profitability and overall value proposition.

The most important issue for stakeholders is ‘Customer experience’. Delivering and exceeding the expected outcomes of clients will always be a key focus for Kier and one of our key non-financial KPIs.

The following headings are from Kier’s strategy for a sustainable business, listed in order of material importance to our stakeholders:

- | | |
|--|---|
| 1 Customer experience | 11 Governance – risk and opportunity |
| 2 Citizenship and community engagement | 12 Society and community |
| 3 Sustainable supply chain | 13 Employee engagement and retention |
| 4 Safety, health and wellbeing | 14 Stakeholder engagement |
| 5 Labour standards and human rights | 15 Reward scheme |
| 6 Carbon | 16 Water |
| 7 Waste | 17 Diversity |
| 8 Material standards | 18 Governance – reporting and assurance |
| 9 Business ethics | 19 Environmental incidents |
| 10 Training, education and apprenticeships | 20 Biodiversity |

Key:

- People and communities
- Environment
- Marketplace
- Governance

Group Corporate Responsibility Report 2015

The full Kier Group CR Report 2015, ‘Enabling sustainable business’, can be downloaded from our website at <http://www.kier.co.uk/crr2015>. This report, which supports and expands upon the matters reported in this section, has had external assurance by PwC and has been self-assessed to comply with application level C+ of the GRI G3 Sustainability Reporting Guidelines.

It is important to our stakeholders, especially investors seeking socially responsible businesses, that we can demonstrate a genuine commitment to undertake our work in an environmentally, socially and ethically responsible way. The CR Report explains in detail our approach

to, and performance in, ensuring Kier is a sustainable business. It also addresses those risks that could compromise this commitment.

We have addressed the 20 KPIs identified under the four broad headings of people and communities, environment, marketplace and governance. This will help us to achieve our financial ambitions and become more efficient, as well as being socially and environmentally responsible. This will also help all our stakeholders to better consider and evaluate the full and tangible value of our non-financial strategic priorities, KPIs and risk mitigation in supporting our long-term financial performance.

In September 2015, we will undertake a shareholder engagement exercise including many of our leading investors, to share with them our draft CR Report 2015 and to seek their feedback on what elements of our reporting are of most material importance to them in making their investment decisions. Our website will contain the outputs and the outcomes of this exercise and will be found at <http://www.kier.co.uk/crshareholders2015>.

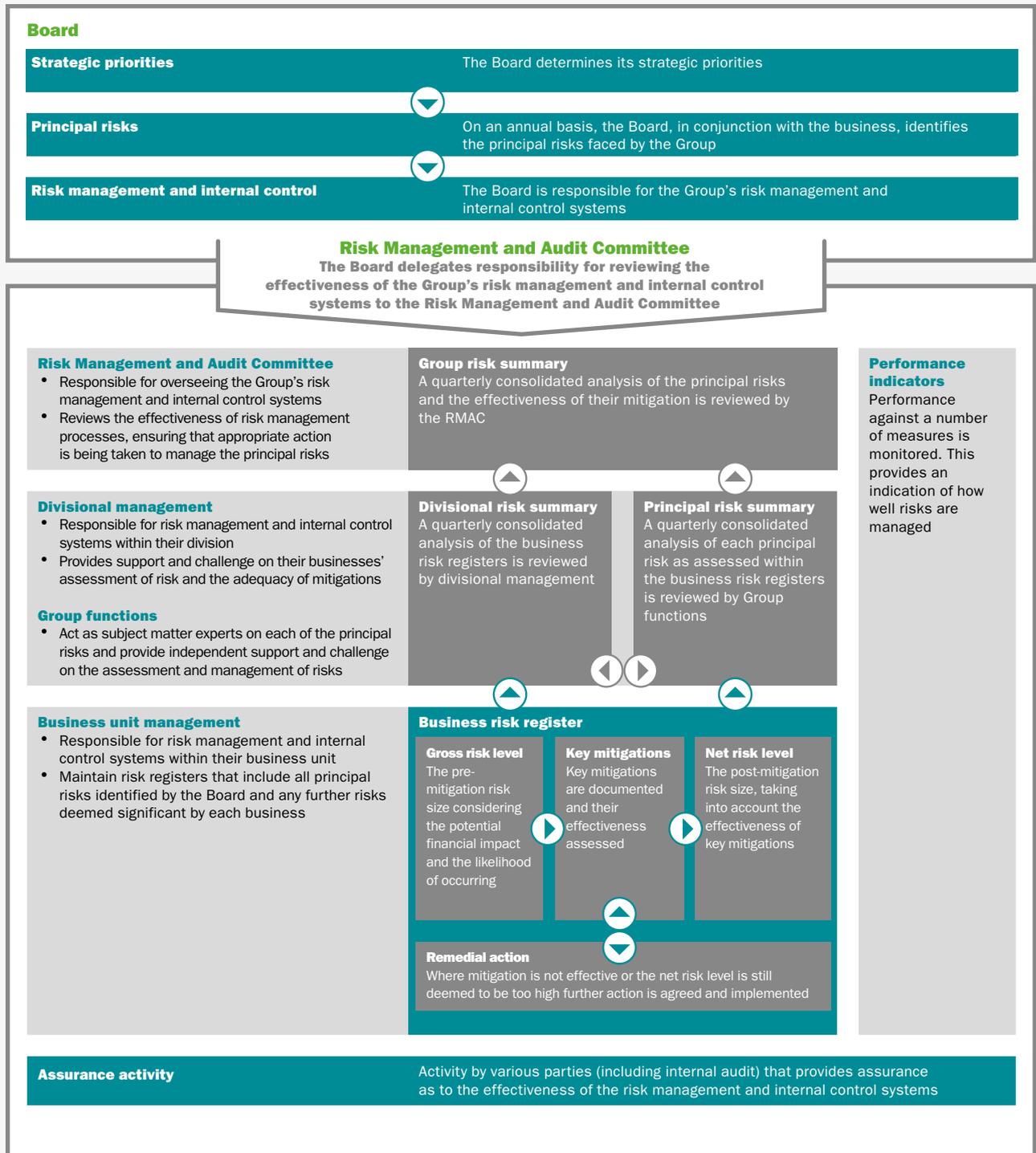
Risk management

The Board is responsible for the Group's system of risk management and internal controls and for ensuring that significant risks, including those potentially affecting achievement of the Group's strategy, are identified and appropriately managed. The Board has delegated the review of the effectiveness of the Group's risk management processes to the Risk Management and Audit

Committee, including the systems established to identify, assess, manage and monitor risk.

How the Group identifies and manages risk
Managing risk effectively is fundamental to the delivery of our strategic priorities. The illustration below sets out the key elements of the risk management process and the key contributors to that process:

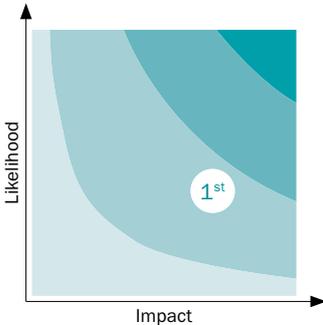
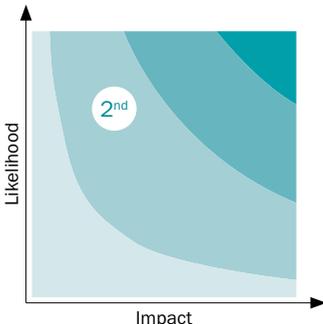
How the Group identifies and manages risk



Principal risks and uncertainties

The nature of the industries and the business environment in which the Group operates are inherently risky. Although it is recognised that it is not possible to eliminate all such risks and uncertainties, the Group has well-established risk management and internal control systems to manage them.

On behalf of the Board, the RMAC identifies the risks that it considers most likely, without effective mitigation, to have an impact on the Group and its strategic priorities. If emerging risks are identified in between these annual reviews, these are incorporated immediately into the risk management process. There has been no change to the Group's principal risks this year: these are set out below, together with a summary of the actions taken to mitigate each risk.

Risk	Mitigations	Current ranking and movement since 2014
<p>Contract delivery</p> <p>The Group has several hundred live contracts at any point in time and the risks to which the Group is exposed are dependent on the nature of the work, the location, the duration and the legal form of the contract. If these risks are not managed effectively, the Group will suffer contract losses, delays and potential reputational damage.</p> <p>Relevant strategic priorities:</p> <ul style="list-style-type: none">  Achieve top quartile performance and efficiency  Provide sector-leading customer experience 	<p>Contracts in progress are controlled and managed through the Group's operating structure and procedures. This includes regular monthly contract reviews of contract-to-date financial performance against budget as well as comparing end-life forecast against tender. Project risk registers are also reviewed. In addition, our procurement function manages subcontractor and supplier relationships across contracts.</p> <p>The monthly reviews are supplemented by a quarterly review process which operates across all divisions of the Group.</p>	<p>1st (2014: 2nd)</p> 
<p>Systems</p> <p>The efficient operation of the Group is increasingly dependent on the proper operation, performance, security and development of its IT systems. The Group is maintaining legacy systems prior to implementing an ERP system. If implementation is unsuccessful, this will impact the Group's efficiency and profitability.</p> <p>Relevant strategic priorities:</p> <ul style="list-style-type: none">  Achieve top quartile performance and efficiency  Ensure we have investment in technology and back-office systems 	<p>Kier recognises that IT plays a fundamental role in supporting the business. All IT activity is managed by Kier's IT department in partnership with the business and according to agreed service levels. Significant investments and programmes are subject to Board review and approval, such as the development of the new ERP system that will standardise the back-office functions. Kier has contingencies in place to deal with cyber security threats.</p>	<p>2nd (2014: 3rd)</p> 

Key: ■ Minor ■ Moderate ■ Major ■ Critical

Principal risks and uncertainties continued

Risk

Mitigations

Current ranking and movement since 2014

Funding

The Property and Residential divisions rely on finance provided by the Group and external sources. The Construction and Services divisions rely on Group bonding facilities. Without these, revenue and profit would reduce.

Relevant strategic priorities:



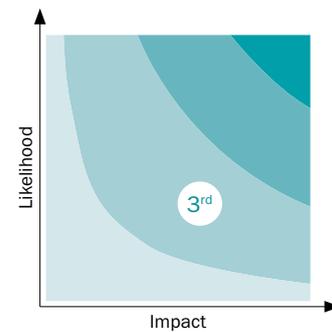
Accelerate growth to be a top three player in our chosen markets

Cash flow is forecast regularly to provide up-to-date and accurate information on the Group's current cash position and its future requirements.

Borrowing facilities have been recently renegotiated and extended. The Group has strong, long-term relationships with the providers of its bonding lines and has an in-house team which monitors headroom and advises on bond terms and conditions.

The Group's Investment Committee is responsible for approving capital investment and optimising the allocation of capital.

3rd (2014: 4th)



People

The Group depends on members of its senior management team and on a flexible, highly skilled, diverse and well-motivated workforce. As core markets emerge from recession, employee turnover has increased. If the Group does not succeed in attracting, developing and retaining skilled people, as well as understanding and embracing the diversity of those people, it will not be able to grow the business as anticipated.

Relevant strategic priorities:



Accelerate growth to be a top three player in our chosen markets

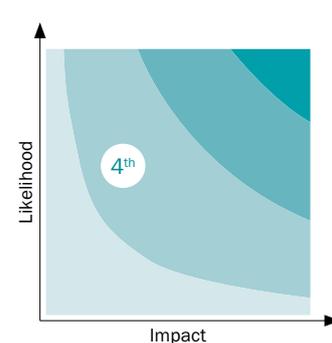


Attract and retain highly motivated, high-performing teams

The Group monitors staff turnover closely. Pay and conditions are reviewed regularly against the prevailing market to ensure that we remain competitive.

Succession planning and staff development are managed at all levels in the Group. The Group has a performance review process which is designed to assist in the career development of its staff and also to identify potential successors to roles within the Group (including at senior management level).

4th (2014: 1st)



Key: ■ Minor ■ Moderate ■ Major ■ Critical

Risk

Mitigations

Current ranking and movement since 2014

The market

The Group's strategy depends on the planned level of expenditure within both the public and private sectors. Smaller markets will likely result in lower revenue for the Group.

Relevant strategic priorities:



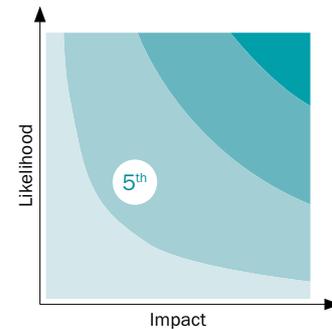
Accelerate growth to be a top three player in our chosen markets

The Group has a structure to manage and mitigate risk with the following key components:

- A wide geographic regional network of offices across the UK well integrated into local communities, the client base and the supply chain;
- A high number of framework agreements and partnerships with Government, local authorities and the private sector;
- Kier's integrated offering, with Property typically peaking earlier in the economic cycle and Services later, provides a natural mitigation against recession; and
- A developing capability to predict market changes, in particular future Government priorities.

The Group also carries out monthly and quarterly reviews of its workload and forecasts its overhead levels as a percentage of future work in order to maintain a steady ratio of overhead costs to revenue. Fuel and other materials that are in high demand, such as steel, are hedged or forward-purchased when deemed necessary.

5th (2014: 8th)



Tender pricing

The work for which Kier tenders is often complex and long-term with significant associated risks. Tender assumptions may be inaccurate or the risks associated with the tender may not be fully understood. If risks are under-priced, contract losses and potential reputational damage will result. If risks are over-priced, order books will suffer.

Relevant strategic priorities:



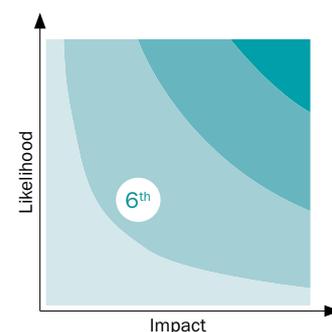
Achieve top quartile performance and efficiency



Provide sector-leading customer experience

The Group's appetite for very long-term, large, competitively tendered construction contracts is limited. This is influenced by the desire to maintain quality of workload and to manage risk. Tenders for contracts are subject to a governance structure which includes Group-wide standing orders and a gateway process, with approval by the chief executive/finance director, other executive directors or divisional directors, depending upon the value and nature of the contract. Tenders with defined specific risks are reviewed by the Group's Risk Review Committee.

6th (2014: 7th)



Key: ■ Minor ■ Moderate ■ Major ■ Critical

Principal risks and uncertainties continued

Risk

Compliance

The Group is subject to a number of complex, demanding and evolving legal and regulatory requirements. A breach of laws or regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business, ranging from additional costs incurred on a project or in the overall management of the breach, to civil and/or criminal penalties as well as reputational damage.

Relevant strategic priorities:



Operate a safe and sustainable business



Provide sector-leading customer experience

Mitigations

The Group monitors and responds to legal and regulatory developments in the areas in which it operates. It conducts risk assessments to assess material changes and the policies and procedures it needs to manage them.

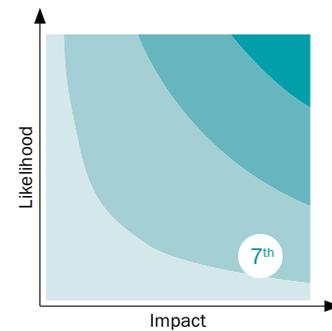
The Group's policies require that all of its subsidiaries, employees, suppliers and subcontractors comply with applicable laws and regulations. The Group updates its policies to ensure that it complies with changes in legislation and regulation. Certain mandatory training is provided on relevant areas of law and regulation.

The Group operates and encourages the use of a whistle-blowing process that enables employees to raise concerns.

Contracts entered into by the Group are subjected to a review process to ensure that contractual risks are identified and, wherever possible, mitigated appropriately.

Current ranking and movement since 2014

7th (2014: 9th)



Change

Shortly before year end, the Group acquired Mouchel and is currently undertaking its integration through a tightly governed change programme. In addition, the ERP programme has completed its planning and development phase and is expected shortly to move into implementation and roll-out. Unless carefully managed, these programmes risk diverting management attention away from core operations, causing a loss of focus on key market opportunities and control of the existing business.

Relevant strategic priorities:



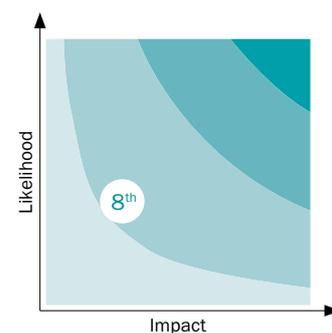
Achieve top quartile performance and efficiency



Ensure we have investment in technology and back-office systems

All change programmes are tightly controlled by both a programme steering group and by regular review by the RMAC. The integration programme, in particular, provides a weekly update report that provides details on progress, risks, issues and executive decisions that are required.

8th (2014: 10th)



Key: ■ Minor ■ Moderate ■ Major ■ Critical

Risk

Mitigations

Current ranking and movement since 2014

Safety

The Group's activities are inherently complex and potentially hazardous and require the continuous monitoring and management of health, safety and environmental risks.

Failure to manage these risks could result in injury to employees, subcontractors or members of the public or damage to the environment. This could also expose the Group to significant potential liability and reputational damage.

Relevant strategic priorities:



Operate a safe and sustainable business



Accelerate growth to be a top three player in our chosen markets

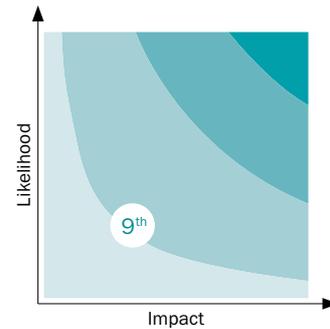
Detailed policies and procedures exist to minimise such risks and are subject to review and monitoring by the operating businesses and Group. All operating businesses have a director who is responsible for co-ordinating health & safety activities.

Compliance with the SHE management system is monitored through a number of tools including audit, leadership tours and inspections.

The Group's behavioural change programme is designed to change behaviours at the supervisor and workforce level while the Visible Leadership Programme is encouraging appropriate engagement by the business leadership with the workforce.

The SHE audit programme continues to be used as a key method in identifying common areas of non-compliance across the business, helping us drive improvements proactively rather than reactively.

9th (2014: 5th)



Reputation

The Group's ability to tender for new business and its relationship with customers, supply chain partners, its employees and other stakeholders depends in large part on the good reputation that it has established and how it is perceived by others. The Group's growth targets are unlikely to be achieved if this risk is not managed.

Relevant strategic priorities:



Operate a safe and sustainable business



Accelerate growth to be a top three player in our chosen markets



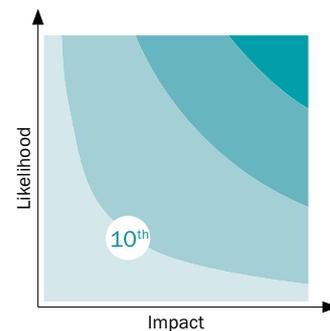
Provide sector-leading customer experience



Attract and retain highly motivated, high-performing teams

With the increasing profile of the Group in both business to business and business to customer markets, the ability to monitor and measure the Group's reputation through client and customer feedback is key. Customer satisfaction monitoring has been implemented across the Group and, with the development of a digital strategy including social media, we are better informed of issues that may arise.

10th (2014: 6th)

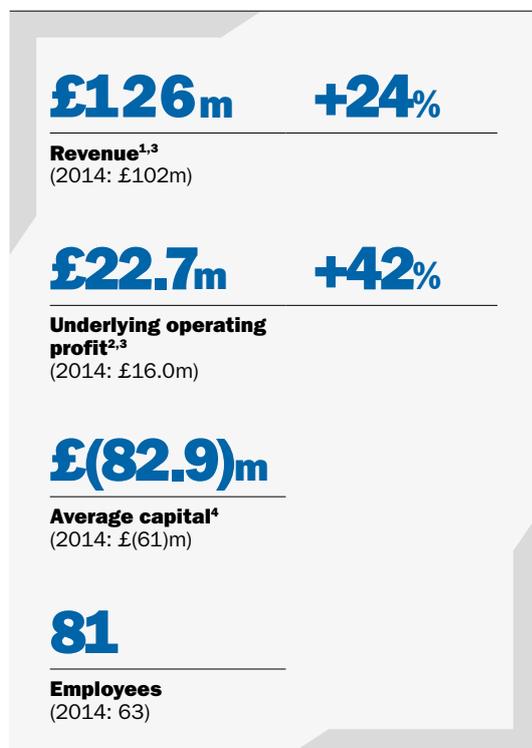


Key: ■ Minor ■ Moderate ■ Major ■ Critical

Divisional review

Property

The division provides property development and structured finance.



Revenue^{1,3} was £126m (2014: £102m), up 24%, generating an underlying operating profit^{2,3} of £22.7m (2014: £16.0m). This significant result was achieved with average capital invested of £84m in the Developments business, through a focus on capital efficiency with co-investors and using the cash flow from Kier's other operations. A profit of £1.3m was generated from the sale of a PFI investment in the year. The division achieved a 27% ROCE, exceeding its 15% ROCE target following the significant profit contribution from the Solum Regeneration joint venture renegotiation with Network Rail. However, it is anticipated that ROCE will return to normalised levels in the current financial year. The division's performance continues to be healthy with a development pipeline of opportunities in excess of £1bn.

With a greater focus on Kier's integrated offering, and working with joint venture partners, the specialist skills of the Property division are increasingly in demand by public sector clients who are seeking to maximise the return from their property assets. For example, a Strategic Property Partnership with Staffordshire County Council and the Police and Crime Commissioner ('PCC') for Staffordshire was signed in June 2015. The partnership has created a joint venture company between Kier, the County Council and the PCC called Penda, for a 10-year period with the potential for a five-year extension. The partnership will review property and land schemes including development, disposal, acquisition, construction, asset management and facilities management for a value up to £400m and involve a range of capabilities from across the Group.

Developments

The Development business concentrates predominantly on non-speculative opportunities, with a focus on pre-let and forward sold developments and joint venture arrangements thereby reducing the associated risk and demands on Group cash. During the period, 1.2m sq ft of pre-lets and lettings were secured across a range of sectors, including industrial, retail and leisure, and for a range of prestigious clients including Total E&P, Centrica and CGG. Within the Trade City joint venture with Investec, the first two schemes at Sydenham and Frimley were sold for a combined cash consideration of £20m. In June 2015, construction commenced on two new schemes in Oxford and Bracknell.

In December 2014, the division disposed of its 50% share in the Trade City schemes at Hayes (60,000 sq ft) and Uxbridge (120,000 sq ft) for £14m. In June 2015, the business expanded its industrial offering with the launch of the Logistics City brand focusing on industrial space units up to 150,000 sq ft, complementing the Trade City brand which focuses on owner-occupier needs with units averaging c.10,000 sq ft. New Logistics City schemes are underway in Normanton, Yorkshire, where completion is expected in November 2015, with additional sites secured at Thurrock, Frimley and Andover.

¹ Group and share of joint ventures.

² Stated before non-underlying items see notes 2 and 4 to the consolidated financial statements. Reported Property operating profit was £22.6m (2014³: £13.6m).

³ Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

⁴ Equates to average net debt.



Catterick

The £30m retail and leisure development at Catterick was completed by Kier Property in September 2015 with a sale anticipated as the park becomes established. The scheme was delivered in a joint venture between Kier and Lingfield Securities and built by Kier Construction.

Divisional review

Property continued



Clifton House, Glasgow

Through its joint venture with Amber Infrastructure, Kier has converted two office buildings in the west end of Glasgow into student accommodation comprising a total of 142 en-suite cluster bedrooms and 122 self-contained studio units.

Following Kier's selection by Total E&P to build its new 240,000 sq ft headquarters in Aberdeen, further success in the office sector has been achieved having been selected to develop a new 50,000 sq ft office for CGG, the geoscience company, in Crawley, with construction due to commence in spring 2016. Further office developments are underway in Hammersmith (60,000 sq ft), in joint venture with Investec, 58 Victoria Embankment in London (46,500 sq ft), in which Kier holds a 16% equity stake and is also the development manager and funding partner, and at Sovereign Street in Leeds (940,000 sq ft), of which 60% is pre-let.

The retail, mixed-use and regeneration sectors remain healthy. The £30m retail and leisure development at Catterick is on programme having achieved practical completion in August 2015 and a sale expected by December 2015. The 68,000 sq ft leisure scheme in Walsall, comprising a cinema and food and beverage outlet which have been fully pre-let, has been forward funded and Kier's investment sold with construction due to complete in November 2015. Two new retail schemes have been secured in Wakefield (47,000 sq ft) and Durham (63,000 sq ft) with significant occupier interest on both schemes and construction is set to commence in the coming year.

In the hotel sector, a 67-bedroom Travelodge and retail unit at Doncaster Lakes were sold for a cash consideration of £4m. Construction continued on the forward-sold 222-bed hotel for Motel One in Highbridge, Newcastle with completion on target for late 2015. In April 2015, a new joint venture with Premier Inn Limited, part of the Whitbread Group, was formed to identify hotel development opportunities across the UK.

In October 2014, the 20 acre Reading Gateway site was acquired in partnership with Investec. A planning application for 150 new homes and a hotel and light industrial and trade counter space is expected to be submitted in October 2015.

In December 2014, the £240m Watford Health Campus project reached a significant milestone, with the planning award of the hybrid masterplan and the commencement of highway infrastructure works. The scheme will deliver 375,000 sq ft of mixed-use development to the area as well as 680 new homes.

Reinforcing Kier's relationship with Network Rail, the Solum Regeneration joint venture was extended for an additional 10 years to 2028 focusing on schemes up to £150m with its joint venture partner. Solum has in excess of £500m of mixed-use and regeneration schemes in its portfolio and a significant number of regeneration schemes are underway including in Guildford, Haywards Heath, Redhill, Twickenham and Walthamstow.

Structured finance

The current portfolio of structured property finance projects includes eight schemes, two at preferred bidder stage and the remainder in construction or operation. The committed equity investment stands at £21m (2014: £19m) of which £13m (2014: £11m) has been invested to date. The directors' valuation at a discount rate of 7.5% for PFI investments and 10% for direct let student accommodation investments is £36m (2014: £34m).

The student accommodation joint venture with Amber Infrastructure, set up last year, recently completed 264 rooms in Glasgow ready for the 2015/16 academic year and more student accommodation opportunities are in the pipeline. In the education sector, good progress is being made on the design, build, finance and maintain ('DBFM') of the £25m Ayr Academy scheme in South Ayrshire and the Kilmarnock Academy DBFM scheme where Kier is the preferred bidder, and both of which are being delivered via South West Hub.

Property outlook

The property market remains strong with increased demand for high-quality office space, both in the regions and London, and we are seeing rising demand for industrial space. Our co-investor partners continue to provide support, which is helping to improve our own return on capital, and the focus will remain on predominately non-speculative and pre-let opportunities and the continued recycling of mature assets. The division will continue to generate opportunities for our Construction and Services divisions and assist clients to create value from under-utilised assets.

Divisional review

Residential

Kier Residential, branded Kier Living, includes private house building and affordable mixed tenure housing partnerships.

£257m **+10%**

Revenue²
(2014: £233m)

£11.2m **+45%**

Underlying operating profit^{1,2}
(2014: £7.7m)

£(262.7)m

Average capital³
(2014: £(233)m)

613

Employees
(2014: 348)

In its first full year operating as a new division, the Residential business performed well. The Group's activities are focused on both private house sales and working with local authorities, housing associations and other clients on building mixed tenure affordable housing. Revenues increased to £257m (2014²: £233m) with the total number of unit completions increasing by 35% to 2,130 units, generating an increase in underlying operating margin^{1,2} to 4.4%.

The strong second-half performance was assisted by the affordable funding programme, as predicted. Underlying operating profit¹ of £11.2m (2014²: £7.7m), up 45%, was achieved with a 13% increase in average capital invested, reflecting the ongoing recovery in the sector and the rebalancing of the land bank away from legacy Kier land and into mixed tenure developments.

Mixed tenure

The mixed tenure business achieved more than 1,400 completions in the year, a significant increase on 2014, reflecting the unfulfilled housing demand. In April 2015, the division extended its operations in the north of England through the acquisition of a number of assets and contracts from a regional affordable housing business, Southdale. This business provides the division with a national UK mixed tenure capability.

There was a significant increase in available plots in the Midlands and major development sites set up in Chesterfield, where a large Homes and Communities Agency master planned mixed tenure site is underway, and Kettering, a site developed in conjunction with Buccleuch Trust.

The mixed tenure return on capital is now more than 10% and improving with capital employed increasing to over £40m. The recent budget changes and the extension of Right-to-Buy are expected, in the short term, to lead housing associations and councils to re-assess their development plans. However, these changes are expected to result in greater public and private collaboration, as housing associations and councils seek scale which should be of potential benefit to the Group over the medium term as larger schemes then come to market. The mixed tenure business is well positioned and is more than 70% secured for 2016.

¹ Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements. Reported Residential operating profit was £11.2m (2014²: £7.6m).

² Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

³ Equates to average net debt.

Divisional review

Residential continued



Worthing Waterfront

The Worthing Waterfront site consists of 64 one and two-bedroom apartments just metres from the Worthing coastline.

Private

This year saw a significant uplift in private sale completions on Kier owned land, with 706 completions (2014: 601), up 17% on last year. The land bank mix is improving with over 60% of developments on land bought before 2008 and the remainder on newer land which is delivering a 20% return on capital. During the year, the land bank reduced to 3,485 plots (2014: 3,953). Sales were completed at a rate of 0.7 units per trading site per week supported by the Help to Buy scheme, which accounted for approximately 40% of sales. Average selling prices increased to £190k and the business is currently more than 40% secured for 2016.

In March 2015, Kier was awarded a 5* rating in the annual Home Builders Federation customer satisfaction survey, achieving the top score amongst house builders in the UK.

Residential outlook

The UK demand for all forms of housing continues, and the changes to the planning process recently announced aim to accelerate and simplify the decision-making process. The division is well secured for 2016 and we will continue on recycling the land bank to service growth in the mixed tenure business. Mixed tenure is a key part of our housing activities, which, when combined with our experience of housing maintenance, positions Kier well both to assist registered providers to develop their portfolios for both private and affordable housing purposes and to deliver the maintenance requirements thereafter.



Laburnum Lodge, Sandy

The 75-home development at Laburnum Lodge provides a selection of family homes in Sandy, Bedfordshire.



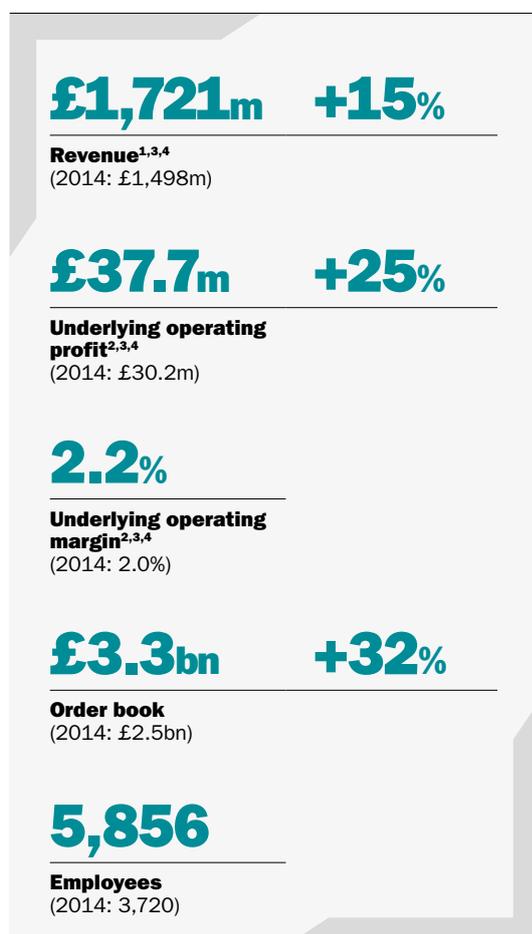
Hawkhead Village, Paisley

Kier's art deco inspired housing development in Paisley, Scotland comprises a selection of three, four and five-bedroom family homes.

Divisional review

Construction

The Construction division comprises the UK building, civil engineering and international businesses which undertake a wide range of building and infrastructure projects.



The Construction division has experienced significant year-on-year organic growth whilst maintaining its selective approach to new work. Revenue^{1,3} was up 15% to £1,721m (2014⁴: £1,498m), reflecting significant market and contract growth over the period, particularly within the core regional building business. This resulted in an underlying operating profit^{2,3} increase of 25% to £37.7m (2014⁴: £30.2m). Underlying operating margins^{2,3} were resilient at 2.2% (2014⁴: 2.0%) and the working capital position has improved.

The order book of secured and probable work, at £3.3bn, is equivalent to 95% of forecast revenue for the 2016 financial year, on increasing volumes.

UK regional building

The regional building business has performed well, with an increasing number of opportunities in the private sector, as well as an expanded profile in Scotland and Wales.

During the year, Kier has secured places on all of its major construction framework bids generating £1.5bn of opportunity. Kier's experience resulted in a number of new contracts being awarded on the health and education frameworks. On 28 August 2015, we announced that Kier has been appointed the sole contractor to deliver up to £1.5bn of construction work, by leading built environment specialist, Scape Group. The Scape National Minor Works framework covers the UK and runs for a duration of four years, delivering schemes valued between £50,000 and £4m, ranging from refurbishment and redevelopment to new construction projects. Kier was previously on the framework and during the last year delivered 215 projects with a value of £130m, of which 20% was completed by the Services division.

In addition, the Group retained its place on the North West Construction Hub medium-value framework for projects worth between £2m and £9m and all three lots under the £4bn Southern Construction Framework, one of the largest construction frameworks in the UK.

The Group was awarded over £260m worth of contracts under the national framework with the Education Funding Agency and is currently the preferred bidder on a total of 10 schemes, with a combined value of £72m.

As announced in June 2015, the division was awarded more than £200m of contracts under the ProCure21+ health framework. These included being named preferred bidder for a £160m contract to design and build a new critical treatment hospital for Hampshire Hospitals NHS Foundation Trust. The new 45,000 sq m campus within the borough of Basingstoke and Deane will include a new cancer treatment centre and critical pathology laboratories, with work planned to start on site in April 2016. In addition, a £25m contract was awarded to upgrade three hospitals in Boston, Grantham and Lincoln for

- 1 Group and share of joint ventures.
- 2 Stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements. Reported Construction operating profit from continuing operations was £36.8m (2014⁴: £22.0m).
- 3 Continuing operations. Prior year restated to reflect the reclassification of the UK mining activities to discontinued operations.
- 4 Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

Crossrail

As part of joint venture BFK, Kier was awarded a £200m contract for the main construction works of the Crossrail Farringdon station in 2011. The project is set for completion in 2018 and will create one of Britain's busiest train stations.



Divisional review

Construction continued

Camden Council's community building, King's Cross, London

Kier is one of the three delivery partners, appointed by Argent, who are redeveloping a 67 acre site in King's Cross, London. As part of the transformation, a new community services centre was built for Camden Council. The £68m BREEAM Outstanding project includes council offices and a number of public facilities, including a leisure centre with swimming pools, library, customer contact centre and café. Kier is also providing FM services at this site.

United Lincolnshire Hospitals NHS Trust and a £22m contract was awarded to reconfigure and refurbish Dewsbury and District Hospital for the Mid Yorkshire Hospitals. Kier has been appointed by two NHS Trusts as Principal Supply Chain Partner through the ProCure21+ frameworks to deliver a £40m programme of reconfiguration works at Hereford County Hospital, and by Nottinghamshire Healthcare NHS Foundation Trust to deliver the Trust's future estates strategy.

The division has developed its profile in the biotech sector, with new projects including a £70m 14,000m² laboratory for the University of Cambridge on the Cambridge Biomedical Campus and the recent completion of the £23m Hinxton facility for the Wellcome Trust Sanger Institute.

In London, the Group has expanded its presence at the Argent development at King's Cross in London by being appointed preferred bidder on new offices and retail space as part of the overall scheme. In April 2015, Kier was selected as preferred bidder to deliver the £170m first phase of The Ram Quarter, a major flagship regeneration scheme in Wandsworth, London. The Ram Quarter will be delivered in three phases, with a total value of around £600m. Kier will deliver 411,000 sq ft of new build residential and retail space for phase one. Enabling works have commenced with completion scheduled for early 2017. This award recognises Kier's extensive experience in major mixed-use and regeneration projects in the London market.

The division continues to undertake work alongside the Property division, for example, on the Total E&P project to build its new 240,000 sq ft headquarters in Aberdeen and the Ayr Academy as part of the South West Hub.

Infrastructure

The infrastructure business maintained a solid performance, with revenues approaching £350m coming from a range of sectors.

In transport, good progress continues to be made on the £450m Mersey Gateway scheme, having achieved the first milestone ahead of programme. Kier's presence in capital programmes in the UK highways sector continues to grow. Following Kier's success on the Highways Agency £1.15bn five-year collaborative delivery framework announced in November 2014, Kier secured one of Highways England's largest Smart Motorway Programme ('SMP') contracts worth up to £475m, in joint venture, in July 2015. The initial £129.5m contract covers works on the M6, with future works on the M6, M20 and M23. In the year, Kier was also awarded, and commenced, the £33m upgrade to the A30, working for Cornwall Council.



Marriott Hotel, Haiti

Following the 2010 earthquake in Haiti, a new £23m 75-bedroom Marriott Hotel in Port-au-Prince was completed by Kier in December 2014.



Sanger Sequencing Building, Hinxton

Kier's presence in the biotech sector has increased and saw the completion in October 2015 of the Sanger Sequencing Building for the Wellcome Trust Sanger Institute.

Divisional review

Construction continued



United Lincolnshire Hospitals NHS Trust

A £25m contract to upgrade three hospitals in Boston, Grantham and Lincoln for United Lincolnshire Hospitals NHS Trust has been completed as part of the ProCure21+ framework.

In the rail sector, we have formed a new joint venture with Carillion and Eiffage for HS2 and at Crossrail, the western running tunnels project is on programme to complete this year, with all Kier's other tunnelling works now complete across the project. Good progress continues to be made on Kier's Crossrail work at Farringdon station which is set to complete in 2018.

In the energy sector, works have been completed at the Wakefield energy-from-waste plant and are nearing completion at the Plymouth energy-from-waste project. The nuclear sector remains active with new projects at Sellafield, Devonport and Aldermaston, and existing projects at Urenco. At Hinkley, preparation is underway for the next phase of works, which will commence when the final investment decision is announced.

In the water market, the Deephams waste water treatment works project for Thames Water is progressing well.

As announced on 30 June 2015, the UK mining operations in Greenburn, Ayrshire have been prepared for sale and treated as discontinued as at 30 June 2015. Discussions with a potential buyer are progressing well. Following the conclusion of the Group's forward sales contract at the Greenburn mine and the fall in the coal price, the Group has undertaken an impairment review of its UK mining operations. This has resulted in a non-underlying impairment charge to realisable value in the current financial year of £22.9m, with a cash effect of £8m.

International

The international business has secured over £375m of new work in the year. This included major project awards in the Middle East, including a £100m+ prestigious residential development in Dubai, two further contract awards at Dubai Parks & Resorts and a £32m primary infrastructure project for SABIC in Saudi Arabia. Despite lower oil prices, prospects in our key markets of Dubai and Saudi Arabia remain encouraging and our ability to arrange export credit facilities for our clients, supported by UK Export Finance, remains a key differentiator. The business is extending its geographical reach in the region and has a strong order book.

In Hong Kong, work is progressing on our two major rail contracts for MTRC; however, the market remains challenging with project delays being experienced across the entire rail programme and we continue to work with MTRC to resolve these matters.

In the Caribbean, work has been secured in the education and hospitality sectors in Jamaica, although ongoing economic restrictions are reducing expenditure in the public sector. The £23m Marriott hotel in Haiti was completed during the year.

Construction outlook

The Construction division continues to benefit from the UK economic recovery and the higher quality and lower risk of new work, having secured more than £2.5bn in the last year. Its operations are strengthened by an established position on frameworks, a selective approach to new work and an increasing profile in the UK infrastructure market where there is increased Government investment. The order book of £3.3bn is 95% secure for 2016 and margins and cash generation are expected to improve. We will continue to apply our comprehensive pre-construction review and risk management process and endeavour to create a blend of projects utilising our building and infrastructure capabilities in the UK and internationally.

Divisional review

Services

The Services division comprises capabilities in highways maintenance (both local authority and strategic highways), utilities, housing maintenance, facilities management and environmental services. The recently acquired activities of Mouchel's consulting and local authority business processing operations, recently renamed Kier Business Services, are also included.

£1,247m **+13%**

Revenue¹
(2014: £1,104m)

£58.0m **+9%**

Underlying operating profit²
(2014: £53.3m)

4.7%

Underlying operating profit margin²
(2014: 4.8%)

£6.0bn **+62%**

Order book
(2014: £3.7bn)

17,021

Employees
(2014: 10,813)

Services revenue¹ was up 13% to £1.2bn (2014: £1.1bn) reflecting the awards of a £200m four-year extension of the highways services contract with Northamptonshire County Council and more than £700m of awards as part of the AMP6 water cycle. Following the acquisition of Mouchel in early June, a three-week contribution from Mouchel's businesses has been included.

Underlying operating profit² was £58.0m (2014: £53.3m), up 9%. Underlying operating margins² remained in line with management's expectations at 4.7%, reflecting the high volume of bidding costs incurred on the successful AMP tenders in the first half of the financial year and the impact of a significant reduction in market prices for recycle within the environmental business, which impacted underlying operating profit by £4m.

As announced at the completion of the Mouchel acquisition, it is anticipated that the transaction will deliver pre-tax cost savings of approximately £4m in the financial year ending 30 June 2016 and £10m in the financial year ending 30 June 2017 and thereafter.

The order book at 30 June 2015 of £6.0bn (30 June 2014: £3.7bn) provides good visibility of future work, having secured over £0.8bn of new contracts during the year. More than 90% of targeted revenue for 2016 was secured at 30 June 2015. The order book does not include contract extensions, which, if included, would add a further £2.2bn to the £6.0bn total.

Highways maintenance

The highways business continued to perform well, benefiting from the Government's continued focus on infrastructure. Following the acquisition of Mouchel, Kier is now the sector leader in a growing UK highways maintenance and management market covering both the local authority and strategic highways sectors of the UK highways market, where Government spend has increased and will continue to do so.

Overseas, the DownerMouchel joint venture continues to perform well and additional contracts in the Australian highways market and new opportunities in New Zealand are being evaluated.

In the UK, total annual spend on highways is £13bn, of which approximately £7bn relates to maintenance, providing an opportunity for the Group to extend its presence in this market. This spend is further underpinned by Highways England's £17bn five-year investment in the strategic road network. The local authority highways market is using funds made available by the new £575m Challenge Fund, set up by central Government, to help repair and maintain local infrastructure from 2016 and improve overall asset management.

¹ Group and share of joint ventures, including three weeks of Mouchel trading in 2015.

² Includes three weeks of Mouchel trading in 2015, stated before non-underlying items; see notes 2 and 4 to the consolidated financial statements. Reported Services operating profit was £39.3m (2014: £32.6m).

Divisional review

Services continued

In Kier's local authority highways business, a £200m four-year extension of the Northamptonshire County Council highways services contract, in joint venture, was confirmed. In addition, the Lincolnshire and East Sussex contracts were extended with an estimated value of £37m and £15m respectively. Discussions are ongoing with Surrey County Council to develop a more strategic approach to their maintenance requirements, as well as a one-year extension with a value of approximately £50m.

Utilities

The utilities business had a good year, marking the transition between the AMP5 and AMP6 water cycles. On the back of £700m of new contract awards for Anglian Water, Bournemouth, Bristol, Canal River Trust and Thames Water during the AMP6 bidding cycle and extensions with Scotia Gas Network ('SGN') and South West Water, Kier is now one of the top three participants in the UK regulated water sector.

During the period, the business undertook four mobilisations in the water sector: one for Thames Water and three for Anglian Water, which have been completed successfully. As part of these, work has focused on cultural transformation of the alliances, more efficient processes and an improved customer experience.

In the energy sector, there have been significant opportunities particularly in the gas sector and there are increased opportunities in the environmental protection market. With the growth in the utilities sector, availability of skills remains under pressure and Kier has created its own utilities skills academy to respond to this demand.

The gas and telecoms sectors of the utilities market remain particularly attractive with opportunities under discussion with OpenReach and SGN.

Mouchel Consulting

Mouchel Consulting operates within the highways design, management and technology sector with operations in both the UK and the Middle East. Since 30 June 2015, Mouchel Consulting has secured one of the five major regional traffic modelling contracts with Highways England and, supporting the Government's northern powerhouse devolution agenda, has been awarded a £1.4m project to assess the feasibility of a new TransPennine link between Sheffield and Manchester. Building on its track record in the Middle East highways sector, a four-year £17m supervision contract has been secured for a highways maintenance contract in Abu Dhabi.



Environmental

Mouchel Consulting provides a range of services across a project lifecycle including policy development, planning and design and performance monitoring principally in the transport, environmental, property and water sectors.

Housing maintenance

The business experienced a good first half of the year; however, trading was more subdued in the second half as is typical around an election. Following the award of the four-year £140m repairs and maintenance contract with Genesis Housing Association in September 2014, this was successfully mobilised. Other contract awards in the year included the £26m four-year roofing contract for Sheffield City Council and the five-year £6m planned maintenance contract for Richmondshire District Council in North Yorkshire. In addition, the business is supporting the £25m ProCure21+ regional minor works contract being undertaken through Kier Construction. New opportunities are under discussion with Metropolitan Housing and following a change in strategic approach from the client, the £9m Circle repairs contract was exited enabling the Group to focus on the planned works and gas compliance contracts for that client.

This business continues to develop new opportunities in the East and West Midlands, the North West and East Anglia. Opportunities are also arising from targeting frameworks and places have been secured on 24 frameworks covering works for 150 clients, including the Greater London Authority RE:NEW framework. With the recent Government affordable housing and rent announcements, it is anticipated that the market for registered providers will change, with likely consolidation providing access to larger stock portfolios and the need for increased outsourced support.

Facilities management

To better define its offer in a competitive market, the facilities management ('FM') business focuses on providing a broad FM and asset management proposition to clients. This breadth of delivery is in line with market trends and has resulted in contracts being signed with Staffordshire County Council and the Police and Crime Commissioner for Staffordshire.



Thames Water

Thames Water is a client using a range of Kier services. During this year, Kier was awarded the £1bn Thames Water infrastructure alliance contract, in joint venture with Clancy Docwra.

Divisional review

Services continued



Highways

The Mouchel acquisition extends Kier's market share of the highways and, more broadly, the transport market. The Strategic Highways business is one of Highways England's key suppliers whilst the Consulting business provides capabilities in the fields of development and transport planning, design and management, intelligent transport services including tolling and enforcement, and maintenance and operations.

There have been a number of new awards in the year, including a five-year £22.5m contract with the Royal Opera House and the provision of a four-year £4.8m contract for engineering services to University College London, built by Kier Construction. In the year, the business also joined two national public sector frameworks: the hard FM framework for Crown Commercial Services and the soft FM services framework for national Procurement Services Wales.

The market for FM services both in the public and private sectors looks encouraging and, with clients appearing to prefer integrated self-delivered solutions, Kier is well placed to make further progress.

Kier Business Services ('KBS')

The newly acquired operations of Mouchel provide a range of business process outsourcing and property management services to the local authority market, as well as to the police, health and education sectors. Kier has a prominent position with local authorities across its operations and further opportunities exist to extend its services to clients via Kier Business Services ('KBS'). KBS remains focused on the provision of bundled services to assist local authorities to address their budgetary challenges. Key clients of KBS are exploring the breadth of services now available through Kier and discussions on further outsourcing with current customers are ongoing.

Other

During August, the Bristol City Council contract in our Environmental business mutually terminated within the overall fair value provisions arising at the time of the May Gurney acquisition. Elsewhere, the performance of the environmental business remains challenging but stable.

The sale of Fleet & Passenger Services was completed on 1 July 2015 for £17.9m. Proceeds from the sale were used to improve Kier's cash position and, where appropriate, to fund growth opportunities in line with Kier's strategy.

Services outlook

Following the acquisition of Mouchel, the Group's highways capability has been extended and accelerated. Our enhanced capabilities within the highways market, together with our Group infrastructure capabilities, positions us well for future investment in the transport sector. The increased focus of our utilities business on regulated sectors such as telecoms and power provides new opportunities for further growth in the business. In the local authority market, budgetary challenges continue to create a need for a new approach to managing assets and how services are delivered leading to the outsourcing of more complex, asset focused contracts. Our strong relationships with local authorities provide a robust foundation on which to grow and utilise the breadth of skills we have across the Group. The division has a £6.0bn order book with potential extensions adding a further £3.3bn and is 90% secured for 2016.



Kier Business Services

Kier Business Services, formerly a Mouchel company, provides a range of business process outsourcing and property management services to the local authority market as well as to the police, health and education sectors.



Royal Opera House

Kier provides hard and soft FM services for the Royal Opera House at its iconic site in Covent Garden, in addition to two other locations across the UK.

Financial Review

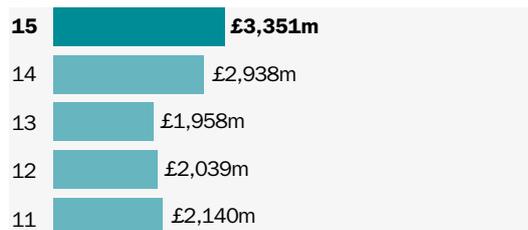
A strong profit performance across all divisions with a capital structure and forward order book positioning the Group for future growth.

Accounting policies and segmental reporting

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards ('IFRSs'). There have been no significant changes to the accounting policies adopted by the Group during the year ended 30 June 2015.

As previously disclosed, the Group has revised its segmental reporting this year. The Group's segmental reporting and related comparators have been revised to highlight the contribution from the Residential division, Kier Living. This additional disclosure highlights the Group's growth aspirations in the mixed tenure housing market in particular.

Revenue^{1,4}



Underlying financial performance

Revenue^{1,4}, including share of joint ventures, has increased 14% to £3,351m (2014: £2,938m) reflecting strong organic growth across all divisions within the Group. The acquisition of Mouchel on 8 June 2015 had a minimal impact on the overall Group revenue for the period, with like-for-like revenue increasing 12%.

Revenue¹ from the Group's Property division of £126m represented a 24%⁵ increase from the prior year and average capital invested was £83m (2014⁵: £61m). There is an increasingly robust external market and this has contributed to a strong pipeline of future development, in excess of £1.0bn. The Group's portfolio remains predominantly non-speculative in nature centred on the commercial, retail and business park sectors.

The Residential division, which includes private housing, mixed tenure housing and contracted residential projects also saw strong growth in the period with revenues increasing 10% to £257m (2014⁵: £233m). This turnover was highly second half weighted with 66% of unit volumes reported in the latter period.

The Construction division which includes UK Regional Building, UK Infrastructure and international construction saw revenues^{1,4} increase 15% to £1,721m (2014⁵: £1,498m) with a significant rebound in the UK regional building market being the main driver for this growth.

Within the Services division, the Group saw volumes¹ increase to £1,247m (2014: £1,104m), growth of 13%. Excluding the impact of the acquisition of Mouchel like-for-like organic growth was 8%. The Services division benefited materially from contract awards in the first half of the year on the AMP6 water maintenance cycle with £535m of work won to be delivered over the next five years.

Underlying operating profit^{2,4}, including share of joint venture income of £103.7m (2014: £87.3m), was 19% higher than the prior year reflecting the strong trading performance of all of the Group's divisions and the improving UK trading environment.

The results of the Property division highlight the benefits of our ongoing non-speculative investment strategy with underlying operating profits² of £22.7m (2014⁵: £16.0m) being 42% higher than in 2014. The majority of the income, 59%, was generated outside of the London market where the Group is benefiting from a recovery in the regional commercial development and letting market. This reflects a ROCE of 27.4% (2014⁵: 26.2%) with the increasing use of joint venture arrangements and associated non-recourse debt enhancing the efficiency of the Group's capital usage. The Group is maintaining its commitments to its 15% ROCE hurdle rate in the medium term.

The Residential division returns have increased 45% to £11.2m (2014⁵: £7.7m). As the Group trades out of legacy land held at nil margins and also generates increased scale within its mixed tenure business, margins have increased to a blended 4.4% (2014: 3.3%) across the open market and mixed tenure businesses.

The Construction division delivered an underlying operating profit^{2,4} of £37.7m (2014⁵: £30.2m), a 25% increase on the prior year and an overall underlying operating margin^{2,4} on Group revenue of 2.2% (2014⁵: 2.0%). The Group has continued its highly selective approach to tendering and bidding for new work and its prudent approach to margin recognition; as such this represents a robust return reflective of a strong delivery capability and a recovering market, particularly in UK Regional Building.

Bev Dew
Finance Director



£3.3bn

Group revenue⁴

£85.9m

Underlying profit
before tax^{2,4}

£9.3bn

Construction and
Services order book

Financial performance

	2015 Year ended 30 June	2014 Year ended ⁴ 30 June	Change %	Like for like %
Continuing operations				
Revenue ¹	£3.4bn	£2.9bn	+14	+12
Group revenue	£3.3bn	£2.9bn	+13	+11
Operating profit – Underlying ²	£103.7m	£87.3m	+19	+16
– Reported	£60.9m	£34.3m	+78	+79
Profit before tax – Underlying ²	£85.9m	£73.7m	+17	
– Reported	£39.5m	£15.4m	+156	
Earnings per share ³ – Underlying	96.0p	87.5p	+10	
– Basic	40.2p	16.2p	+148	
Dividend per share ³	55.2p	57.6p	-4	

¹ Group and share of joint ventures.

² Stated before non-underlying items; see note 4 to the consolidated financial statements.

³ Restated to reflect the impact of the bonus element of the rights issue associated with the Mouchel transaction (see note 24 to the consolidated financial statements).

⁴ Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations.

⁵ Restated to reflect the creation of the Residential division, comprising elements previously included within the Property and Construction divisions.

The Services division generated £58.0m of underlying operating profit² in the year, a 9% increase from the prior year with a three week contribution from Mouchel. The contribution from the acquired Mouchel business was immaterial in the period. The overall underlying operating margin² of 4.7% (2014: 4.8%) was down 0.1% on the prior period. This reduction reflects the high volume of bidding costs incurred on the successful AMP tenders in the first half of the financial year and the impact of a significant reduction in market prices for recyclate within the Group's environmental business. The recyclate issue adversely impacted operating profit by £4.0m. The highways and utilities businesses performed well and in line with management expectations as did the FM and housing maintenance businesses.

Further information relating to the operating performance of each of the divisions is contained within the divisional reviews.

Total corporate costs of £25.9m have increased by £6.0m from the prior year. Whilst the IAS19R pension charge has decreased to £6.8m (2014: £13.6m) due to the cessation of the final salary pension scheme, the unrecovered Group overheads increased to £19.1m (2014: £6.3m) as the Group continues to mature and expand, and additional investment in risk management, IT and core commercial and financial controls has been made during the year.

Corporate costs

	2015 £m	2014 £m
Unrecovered overhead	(19.1)	(6.3)
IAS19R pension charge	(6.8)	(13.6)
	(25.9)	(19.9)

Underlying net finance costs¹ – continuing operations

	2015 £m	2014 £m
Net interest receivable/(payable) on operating cash balances	0.7	(1.5)
Interest payable and fees on committed borrowings	(13.7)	(7.6)
Interest payable on finance leases	(2.6)	(2.7)
Net interest on net defined benefit obligations	(2.2)	(1.8)
	(17.8)	(13.6)

The net underlying finance cost¹ for the Group of £17.8m is £4.2m higher than in the prior year with additional costs associated with higher average borrowings driven by the second half weighting of the Residential division and the US private debt placement made in November 2014.

The tax charge for the Group of £16.9m in the period represents an effective rate of 19.7%. This is a discount of 1.05% against the UK standard corporation rate for the year (20.75%) and is driven by the accounting for profit on the disposal of PFI investments and a minor re-appraisal of prior period taxation provisions.

Overall underlying EPS² from continuing operations of 96.0 pence (2014: 87.5 pence) represented a 10% increase from last year. The number of shares in issue increased from 55.3m last year end to 95.2m at 30 June 2015, the increase driven by scrip dividend (0.1m shares), share ownership schemes (0.2m shares) and the Mouchel transaction (39.6m shares).

Corporate activity

During the year, the business acquired the share capital of MBRL Limited, the parent company of the Mouchel Group. This transaction completed on 8 June 2015 for a net consideration of £260.6m. In addition to the purchase price, the Kier Group also acquired the existing pension liability of £74.9m at 30 June 2015.

The purchase was funded by a 5-for-7 rights issue priced at 34.3% discount to the theoretical ex-rights price ('TERP'), where 39.6m shares were offered to existing holders raising £340.2m. This increased the total number of shares in issue at 30 June to 95,159,247 and the weighted average number of shares in issue during the year to 70.7m.

We are undertaking a comprehensive review of the assets, liabilities and contracts acquired. A preliminary fair value adjustment of £15.1m has been recorded in the 2015 financial year and is broadly in line with management's expectations. This adjustment will be finalised in the 2016 financial year. In accordance with the acquisition accounting guidelines in IFRS3, £301.3m of goodwill and £141.0m of intangible contract rights with associated non-cash deferred tax liability of £28.2m were recognised on the acquisition of the Mouchel Group.

During the year, the activities of the Fleet & Passenger Services business ('F&PS') were put under review and the business offered for sale in the second half of the financial year. Completion was achieved on 1 July 2015, for a loss on disposal of £2.2m. Disposal costs of £3.4m have been shown within non-underlying items in the current year.

Discontinued operations

The Group classified its UK mining operations based in Greenburn, Ayrshire as a discontinued operation in the period. The fall in the coal price from US\$80-US\$85 per tonne in 2014 to US\$55-US\$60 per tonne in 2015, the conclusion of our forward sale agreement with our existing clients and the Group's continuing focus on strategic alignment of operations and delivery of a 15% return on capital has resulted in the Group seeking external buyers for the operation. In light of these factors, the Group has re-assessed the carrying value of its UK mining operations and this has resulted in a non-cash and non-underlying impairment charge of £22.9m being recognised in 2015. The trading loss for the year of £2.9m (2014: £0.6m loss) has been separately disclosed within discontinued operations. The 2015/16 cash outflow in respect of this disposal is estimated at £8m.

¹ Stated before non-underlying items; see note 4 to the consolidated financial statements.

² Stated before non-underlying items; see note 4 to the consolidated financial statements.

Continuing operations. Prior year comparatives restated to reflect the reclassification of the UK mining activities as discontinued operations. Restated for the bonus element of the rights issue associated with the Mouchel transaction; see notes 11 and 24 to the consolidated financial statements.

Non-underlying items

The Group incurred £69.3m (2014: £58.3m) of non-underlying costs in the year, of which £46.4m (2014: £58.3m) related to continuing operations. £22.9m (2014: nil) of this charge relates to discontinued UK mining operations as described above.

Non-underlying items from continuing operations comprise the amortisation of intangible contract rights of £11.2m (2014: £10.8m), unwinding of discount in respect of deferred consideration and fair value adjustments made on acquisition of £3.6m (2014: £5.3m), and other non-underlying items of £31.6m (2014: £42.2m) before the associated tax credit of £6.9m (2014: £9.8m).

There were four main components to other non-underlying items referred to above:

- £13.5m costs associated with the issue of share capital for the acquisition of the Mouchel business and the due diligence and adviser costs arising from the transaction;
- £8.4m of costs driven by post acquisition restructuring and transformation of the acquired Mouchel business;
- £6.3m of costs associated with the closure to future accrual of the Kier Group Pension Scheme. £5.2m of this represents a non-cash adjustment to actuarial assumptions; and
- £3.4m of costs associated with disposal of the F&PS business on 1 July 2015. It is anticipated that a gain on disposal of £1.2m will be accounted for the 2016 financial year in respect of this transaction.

Other non-underlying items

	2015 £m	2014 £m
Costs relating to acquisition of Mouchel	(13.5)	–
Restructuring and transformation costs following the acquisition of Mouchel	(8.4)	–
Costs associated with cessation of the Kier Group final salary pension scheme	(6.3)	–
Costs relating to the disposal of Fleet & Passenger Services	(3.4)	–
Costs relating to acquisition of May Gurney	–	(8.1)
Restructuring and transformation costs following the acquisition of May Gurney	–	(29.6)
Construction Workers Compensation Scheme costs	–	(4.5)
Total non-underlying items relating to continuing operations	(31.6)	(42.2)
Discontinued – UK mining	(22.9)	–
Total non-underlying items	(54.5)	(42.2)

The cash outflow this year in respect of these non-underlying items was £18.8m.

Cash and liquidity

The business delivered a strong cash performance during the year and is reporting overall net debt of £140.8m (2014: £122.8m) excluding finance leases. This is below the long-term balanced position for the Group's capital structure which anticipates year-end net debt of between £150m and £170m.

The cash performance of the Group has six main drivers:

- The impact of corporate activity, in particular the acquisition of Mouchel;
- Operating profits generated by the Group;
- Working capital movements within operational business units;
- Investments in the Property and Residential divisions and Group IT projects;
- Payments in respect of dividends, interest, tax and pensions; and
- The cash impact of non-underlying items.

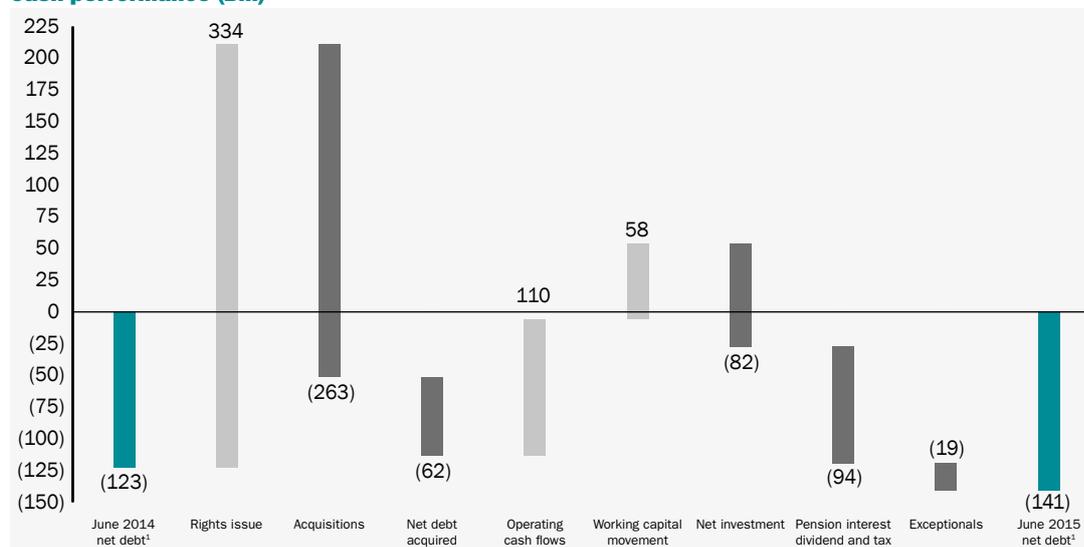
The acquisition of Mouchel was completed on 8 June 2015. £340.2m of capital was raised which was used to acquire the share capital of MRBL Limited for £260.6m and also resulted in the £61.8m of Mouchel debt being incorporated onto the Group balance sheet.

Operating cash of £110.2m was generated, representing a robust performance across the Group and 106.2% of operating profit over the same period.

Working capital cash inflow of £57.8m was generated in the year. Of this £21.0m represents the working capital inflow from the Mouchel Group from their monthly low, when acquired, to a more representative month-end net debt position of £41.0m. The Group position was achieved despite the increasing cash requirements of the Infrastructure business in the UK and the international construction business where the target cost nature of the contracts means that costs are reimbursed once expended rather than being pre-funded.

The Group invested £82.3m which included £12.2m in the year directly into its Residential and Property divisions and a further £32.1m (net of dividends) via joint ventures into opportunities which allow the Group to maximise ROCE. In addition to the above, £17.8m was invested into property, plant and equipment, and a further £22.6m was invested in intangible assets driven by the Group's commitment to back-office improvement and process harmonisation.

Cash performance (£m)



Tax payments of £3.5m, dividends of £41.4m, pension payments of £33.9m and interest of £13.9m were made during the year. It should be noted that the pension cash impact included a one-off cash payment of £15.2m in respect of a pension scheme that had been previously provided.

Finally, the cash impact of the items noted as non-underlying items was a net outflow of £18.8m. These include £14.4m in respect of the pre and post-acquisition costs for Mouchel, £1.1m in respect of cash costs of the closure to future accrual of the pension scheme and £3.3m in respect of the disposal of the F&PS business which concluded on 1 July 2015.

The Group's net debt balance included £146.1m (2014: £112.4m) of cash held in joint contracting agreements and other cash arrangements including project bank accounts which are not available to the Group until the contracts near completion, an increase of 30%. The liquid cash position is also affected by seasonal, monthly and contract specific stage completion and payment patterns. Excluding balances within the acquired Mouchel business this balance has broadly remained unchanged year-on-year.

Order books

The Group's forward workload has increased from £6.2bn in June 2014 to £9.3bn in June 2015, a 50% increase on the prior year. Of this increase, £2.7bn represents the acquired order book from Mouchel, excluding potential contract extensions.

	2015 £bn	2014 £bn
At 30 June		
Construction	3.3	2.5
Services	6.0	3.7
	9.3	6.2

The Group's disclosed order book balance includes contractual, committed orders and preferred bidder contracts within its Construction division, and for the Services division also includes a prudent assessment of the Group's long-term service contracts, again excluding potential contract extensions.

The Construction order book has increased by 32% over the year to £3.3bn as the UK building and overseas businesses in particular have seen very strong performance, notably with framework clients in the UK and led by UK Export Finance in the Middle East.

The Services order book increased by 62% to £6.0bn and included the benefit of the £2.7bn Mouchel order book. Within the Services division, a strong first half performance led by the AMP6 water framework wins was followed by a temporary hiatus immediately pre and post-election. As a consequence the order book, excluding the impact of Mouchel, has declined 11%.

Pensions

The Group's balance sheet includes aggregate deficits net of deferred tax of £122.9m (2014: £47.9m) for the Group's pension schemes. The Group recorded net actuarial losses on those schemes of £27.2m (2014: £23.6m). The Group's principal pension scheme is the Kier Group Pension Scheme. The Group acquired four pension schemes as part of the Mouchel transaction. In addition, the Group also participates in two smaller schemes acquired with May Gurney.

In February 2015, the Group closed the defined benefit section of the Kier Group Pension Scheme to future accrual (as described in the non-underlying items section above). All of the Group's defined benefit schemes are now closed to future accrual. There was good asset growth in the year to £919.4m (2014: £837.1m), with most of the increase arising in the first half of the year. Liabilities however increased by £94.4m to £994.6m (2014: £900.2m).

¹ Excludes finance lease obligations.

This was largely driven by the reduction in the long-term corporate bond yield from 4.4% in 2014 to 3.9% in 2015. These combine to give an overall post-tax deficit of £60.2m (2014: £50.5m).

On 8 June 2015 the Group acquired the Mouchel pension schemes as part of the acquisition. The technical assumptions have been aligned to those adopted by the Kier Group Pension Scheme. The Mouchel related pension schemes had post-tax deficit of £59.9m at 30 June 2015.

The assets and liabilities of one of the May Gurney schemes, TransLinc, is associated with the F&PS business and accordingly the defined benefit asset net of deferred tax of £2.1m is included within assets held for sale at 30 June 2015 and subsequently disposed of as part of the sale on 1 July 2015. The net deficit on the remaining May Gurney pension scheme was £2.8m.

Note 8 to the financial statements includes a sensitivity analysis which highlights the effect of changes to key assumptions behind the valuation of the pension schemes. A net underlying operating pension charge of £6.8m (2014: £13.6m) has been recorded in the income statement. The Group has committed to cash contributions under deficit recovery plans for all of its pension schemes, totalling £26m in the next financial year.

Treasury facilities and policies

Facility type	Facility amount (£m)	Expiry
Revolving credit facility	380	2020
Funding for lending term loan	30	2017
US private placement	183	2019, 2021 2022, 2024
Overdrafts	45	n/a
Asset finance	103	n/a
Total	741	n/a

The Group revised its banking facilities as part of a review of its capital structure in conjunction with the Mouchel acquisition, combining a number of existing facilities under a single revolving credit facility ('RCF') with five lending banks to the value of £380m.

In November 2014, the Group undertook a private debt placement in the US which raised approximately £120.1m of fixed-rate debt, maturing between 7 and 10 years. US dollar-denominated notes were hedged with cross-currency SWAPs to mitigate the foreign exchange rate risk.

Overall debt facilities have increased to £637.7m (2014: £377.7m) following the transactions noted above, with a weighted average maturity date of 2021.

The Group has £71.7m of finance lease obligations on the balance sheet at year end of which £31.1m relates to the F&PS business (included in assets held for resale) which was disposed of on 1 July 2015.

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 loan 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 our 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.

Dividend policy

The Board is proposing a final dividend of 36 pence on the increased 95.2m shares in issue at 30 June 2015. The calculation presented for dividend per share ('DPS') is the technical disclosure that assumes the shares were in issue for the full 12 month period. The shares in issue increased from 55.6m to 95.2m for the final three week period in this financial year. The Board is therefore recommending a dividend which recognises the increased investment by shareholders but also that there was only a three week period to generate returns to fund the final dividend.

Combined with an interim dividend declared of 24 pence per share for shares in issue at February 2015, the total dividend declared this year is therefore £47.3m (2014: £39.4m), which represents a 20% increase on 2014 and reaffirms our progressive dividend policy. On a statutory basis the dividend of 55.2 pence per share is a 4.2% reduction on the restated 2014 dividend.

Going concern

The Chief Executive's strategic review highlights the activities of the Group and those factors likely to affect its future development, performance and financial position. These statements and assumptions have been carefully considered by the Board in relation to the ability of the Group to operate within its current and foreseeable resources, both financial and operational.

The Group has significant financial resources, committed banking facilities, long-term contracts and long order books. For these reasons, the directors continue to adopt the going concern basis in preparing the Group's financial statements.



Bev Dew
Finance Director