

KIER GROUP PLC INTERIM MANAGEMENT STATEMENT

13 November 2013

Kier Group plc, the integrated construction, services and property group, announces its Interim Management Statement covering the period from 1 July 2013 to date, prior to its AGM in London at 11am tomorrow.

Current trading

Kier continues to be on course to meet the Board's expectations for the current financial year.

Construction

We have maintained our strong position with over £450m of awards since 1 July 2013, much of which comes through framework agreements. The order book of secured or probable work, at £2.2bn, represents 100% of the forecast revenue for the current financial year, which is ahead of the equivalent position last year, and the availability of new work continues to increase.

Operating margins remain in line with our expectations for this financial year, at approximately 2%. We continue to closely manage working capital, particularly across public sector contracts and framework arrangements, where payment terms remain challenging.

Notable contract awards since 1 July 2013 include:

- Preferred bidder on two Priority Schools Building Programme (PSBP) batched schools contracts (North East: £63m and East of England: £53m) under the Academies framework
- Contracts to design, build, finance and maintain schools for North Ayrshire council (£62m)
- Kier Living, which provides care homes, high-rise affordable housing and student accommodation, has secured £42m of new work, including 165 affordable housing units for Notting Hill Housing Association
- More than £70m of construction work in relation to PFI schemes for Staffordshire Fire and London Fire Authorities
- Preferred bidder to deliver, in joint venture, the c£450m Mersey Gateway bridge scheme

Confirmation at the end of October that the UK Government has concluded its discussions with EDF Energy with respect to Hinkley Point C nuclear power station is encouraging. This provides greater clarity that our contract for site preparation works, valued at over £100m and announced last year, will begin in 2014.

Services

Following the completion of the May Gurney acquisition in July, we have secured new work of more than £300m, underpinning the £3.6bn order book. This provides visibility of revenues beyond 2020, with 95% of forecast Services revenue for the current financial year secured or probable.

Operating margins remain in line with our expectations for this financial year, at approximately 4.5%, reflecting a combination of Kier Services and May Gurney's trading and the forecast cost savings arising from the acquisition.

The new work secured in the period included two long-term contracts to deliver facilities management services for the PFI fire stations in London and Staffordshire, with a combined value of £38m; utilities contracts worth more than £170m; housing maintenance contracts of approximately £40m; and other projects secured in FM, highways maintenance, environmental and fleet and passenger services totalling more than £50m.

Last week, we successfully renewed our housing maintenance contract for Sheffield City Council valued at approximately £100m over three years, with a potential two-year extension. This has not been recognised in the order book figures stated above.

In addition, we have successfully mobilised the £50m repair and maintenance contract for Grainger plc, strengthening our position in the private rented housing sector, and in October, began mobilisation of the £200m highways maintenance contract for Suffolk County Council.

The integration of May Gurney continues and we remain on track to deliver the forecast £5m of cost savings for this financial year. At the same time, we have embedded consistent risk management and approval processes throughout the enlarged division.

We continue to address the challenges identified at the time of the acquisition, such as the performance of waste collection contracts for the Bristol and Cheshire West & Chester local authorities and the return on capital of the fleet and passenger services business. As highlighted previously, we will announce a fair value adjustment with our half year results in February 2014.

Customer reaction to the combination has been positive and we are currently bidding on more than £1bn of opportunities, as an enlarged, integrated services business, which we anticipate will deliver revenue growth over the next couple of years.

Property

The Property division is progressing well with its combined £1.5bn housing and development pipeline. Occupier and investor activity in the market is improving and the business is pursuing an increased number of opportunities. It continues to target a 15% return on capital while also generating revenues for our Construction and Services divisions.

Since 1 July 2013, we have been appointed preferred development partner for the regeneration of the 45-acre Swan Hunter facility at North Tyneside where there is significant occupier interest as a result of the activity in the offshore power markets.

In November, we signed a joint development agreement with Thames Valley Housing, working with Woking Borough Council, to provide long-term community housing for the borough, together with additional private housing.

In our affordable housing business, we have been awarded new schemes during the period valued at more than £150m. In July we secured the Homes & Communities Agency contract to deliver 700 homes at Manor & Kingsway, Derby and we have also been awarded £38m of mixed tenure work in partnership with Walsall Housing Group. Our forward pipeline of work in this business is now more than £450m.

Our private housing business also remains on track for more than 500 completions this financial year, at an average sales rate per site of more than 0.6 units per week.

Financial position

The Group's net cash position, excluding finance leases, at 30 June 2013 was £60m. Following the acquisition of May Gurney and the final deferred consideration payment of £26m to Lloyds Bank in October in respect of the acquisition of the property portfolio in 2011, the net debt position, calculated on the same basis, at 31 December 2013, is expected to be approximately £100m, as forecast.

Outlook

The Group's order books in Construction and Services are robust and its performance is in line with the Board's expectations. Whilst we are encouraged by the signs of economic growth, we are experiencing inflationary cost pressures, particularly in our construction businesses.

We remain focused on ensuring that the enlarged business delivers the forecast cost savings, which will underpin our performance in the medium term.

Ends

Kier is holding its Annual General Meeting at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ at 11am tomorrow.