

For announcement 0700 hours on 12 November 2014

KIER GROUP PLC AGM TRADING UPDATE

Kier Group plc, a leading property, residential, construction and services group, announces its Annual General Meeting (AGM) trading update covering the period from 1 July 2014 to date, prior to its AGM in London at 12 noon tomorrow (13 November).

Current trading

The Group remains on course to meet the Board's expectations for the current financial year, with performance from the Residential and Services divisions weighted towards the second half of the year, as anticipated.

Property

The Property division, with its development and structured finance pipeline of more than £1bn, is trading in line with expectations. Occupier and investor activity in the market is improving and the business is pursuing an increased number of opportunities. The division continues to target a 15% return on capital on a current average capital investment of approximately £90m (June 2014: £70m), while also generating revenues for our Construction and Services divisions.

Supporting the division's move into the student accommodation market, a joint venture has been formed with Amber Infrastructure for the delivery of up to three student accommodation schemes per annum. The first scheme comprising 240 rooms in Glasgow is valued at £20m. This site has been acquired and construction will commence shortly with project completion scheduled prior to the academic year which begins in September 2015. The roll-out of the Trade City industrial schemes, in joint venture with Investec, continues. An additional site at Reading Gateway has been acquired with a projected value of £70m.

Solum Regeneration, our joint venture with Network Rail, has submitted its planning application for its next major project, Solum Guildford. This will cover 5.5 acres comprising 445 homes and a mix of retail units, offices, a new station multi-storey car park and ancillary facilities with a value of £150m.

In September, the Watford Health Campus mixed-use scheme received planning approval providing for 375,000 sq ft of mixed-use development to the area, including 650 new homes.

Residential

Following the consolidation of the Group's house building activities into one division in July, the Residential division's progress is on track. Supply chain pressures persist; however, inflationary pressure on materials and labour appears to be easing.

The mixed tenure and contracting businesses are expected to complete approximately 1,500 sales this financial year including 350 private sales. A significant proportion of the affordable housing completions are anticipated in the first quarter of 2015 as the current affordable housing programme funding round ends on 31 March 2015.

In the private housing business, we remain on track for approximately 700 completions on our own land this year with a greater weighting of sales occurring in the second half of the year as a result of the completion of two apartment schemes and the opening of four new trading sites. Across both the mixed tenure and private housing businesses, new sites secured since 1 July include; Wingerworth

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(near Chesterfield), Bloxwich (West Midlands), Bilston Urban Village (West Midlands), Falmouth (Cornwall), Brundall (Norfolk) and Kettering (Northamptonshire) creating 643 new plots.

Construction

The Construction division has maintained its good performance, with a significant contribution from frameworks. The order book of secured and probable work at £2.6bn provides for 100% of the anticipated revenue for the current financial year, which is ahead of the equivalent position last year. The level of new work continues to improve across the UK and we continue to manage the inflationary pressures in the sector. Operating margins remain in line with our expectations for this financial year, at approximately 2%.

Construction contracts awarded since 1 July include:

- A place on the Highways Agency's £1.15bn collaborative delivery framework over five years for schemes valued between £25m and £100m;
- Preferred bidder to build a new £57m mixed-use Argent development at Kings Cross, London;
- Preferred bidder to develop and construct a new 270,000 sq ft headquarters for Total E&P UK in Aberdeen, with construction commencing in spring 2015;
- A £58m laboratory for the University of Cambridge on the Cambridge Biomedical Campus providing over 14,000 sq ft of research space, with expected completion in summer 2017;
- A £57m design, build, finance and maintain package for South Ayrshire Council and Hub South West Scotland in Troon and Ayr;
- Preferred bidder for a £50m Knight Dragon high-rise residential block on the Greenwich Peninsula, London; and
- Awards of c£120m in Abu Dhabi; a prestigious hotel and spa and a data centre for a leading UAE bank.

As well as securing a place on the six regional Education Funding Agency (EFA) frameworks in the summer, we are also preferred bidder for three further Priority Schools Building Programmes (PSBP) in Brent, London and Yorkshire totalling £160m under the national frameworks. Bidding for a number of local authority frameworks covering London, Anglia, East Midlands, the North West, Scotland and Southern geographies is also underway totalling over £3.9bn. Two ProCure 21+ schemes worth up to £40m have also been secured.

Services

The Services order book of £3.7bn, excluding potential contract extensions of more than £2bn, has a good visibility of future work and represents more than 90% of targeted revenue for 2015.

Following the successful integration of May Gurney, the Group's broad range of capabilities and its geographic reach enables effective targeting of both existing and new clients for whom Kier can provide integrated solutions.

In October, the four-year £140m repairs and maintenance contract with Genesis Housing Association was mobilised successfully, covering 33,000 properties. Services contracts awarded since 1 July include:

- A six-year £180m Canal & River Trust National Engineering & Construction Contract (NECC) for England and Wales;
- A five-year £100m contract with Bristol Water for network maintenance services, bringing awards under AMP6 bidding cycle to over £150m pa; and
- Preferred bidder for a two-year £14m contract with Severn Trent on the Asset Management Solutions (AMS) framework, with a possible five-year extension.

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Following our recent successes in Services, particularly the contract wins in Utilities, Highways Maintenance and Housing Maintenance, as highlighted above and also in the preliminary results, the business is undertaking an intense mobilisation phase with contracts in their early stages of operation. As is typical in the early stages of larger, long-term contracts, the operating margin lags the forecast total contract operating margin. However, ultimately these contracts underpin the long-term future performance of the Services division. As a result, we anticipate that the operating margins will be approximately 5% for the full year, with a weighting towards the second half of the year.

Financial position

As forecast, the Group's net debt position at 31 December 2014 is expected to increase by approximately £80m (June 2014: £123m), principally due to the timing of investments in the Property and Residential divisions. The Group's net debt position is forecast to improve in the second half of the year.

Outlook

Our business offers a broad range of capabilities which, when combined with a strong regional presence, creates a resilient operating platform, both in the UK, and as we continue to secure good quality opportunities internationally. The Construction and Services order books continue to improve to £6.3bn (June: 2014: £6.2bn), representing more than 95% of forecast revenue for 2015 and an encouraging pipeline for 2016.

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Kier is holding its Annual General Meeting at the Andaz Hotel, 40 Liverpool St, London EC2M 7QN at 12 noon tomorrow.

Enquiries

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