Kier Group
Canaccord Genuity UK Housebuilding breakfast
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Market-leading positions

**Strong long-term fundamentals**

- **Property & Investment**
  - Leading UK infrastructure player
    - £1.5bn+
  - Leading regional builder
    - £1.8bn+
  - Housing (new build and maintenance)
    - £600m+

Represents 90% of Group turnover

Invest, Build and Maintain all asset classes
Revenue and underlying operating profit – June 2017

Revenue\(^1\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>£4,265m</th>
<th>+5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>47%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Underlying operating profit\(^2\)

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>£175m</th>
<th>+5%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property</td>
<td>49%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td>13%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>23%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) Group and share of joint ventures from continuing operations.

\(^2\) Arising on continuing operations, stated before non-underlying items, excluding corporate costs.
Housebuilding highlights

- Kier delivers all aspects of tenure
- Private sales and pricing remain strong
  - Private sales ASP c.£240,000
  - Selling 0.7 units per trading site per week
- Demand for mixed tenure housing continues
  - Assisted by Government initiatives and cross party support
- Secured a place on all 5 regional panels of the £8bn DPP3 framework
- £400m pipeline over the next 4 years
## Kier’s mixed tenure model

### Mixed tenure

<table>
<thead>
<tr>
<th>Blended business</th>
<th>Financial targets</th>
<th>Market position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open market sales</td>
<td>Operating margin 10%</td>
<td>Significant HCA, Local authority and Housing Association relationships</td>
</tr>
<tr>
<td>Affordable housing</td>
<td>ROCE &gt;20%</td>
<td>4% market share</td>
</tr>
<tr>
<td>Contracting</td>
<td>Double current volumes by 2020</td>
<td></td>
</tr>
</tbody>
</table>

**Significant scope for growth**
Residential performance

<table>
<thead>
<tr>
<th>Year ended 30 June</th>
<th>2017 £m</th>
<th>2016 £m</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue1</td>
<td>376</td>
<td>353</td>
<td>+6</td>
</tr>
<tr>
<td>Underlying operating profit2</td>
<td>22.8</td>
<td>20.3</td>
<td>+12</td>
</tr>
<tr>
<td>Average capital3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mixed tenure</td>
<td>39</td>
<td>39</td>
<td>-</td>
</tr>
<tr>
<td>Private including Cross Keys JV (Kier owned land)</td>
<td>160</td>
<td>192</td>
<td>-17</td>
</tr>
<tr>
<td><strong>Total average capital</strong></td>
<td><strong>199</strong></td>
<td><strong>231</strong></td>
<td>-14</td>
</tr>
<tr>
<td>Return on average capital (ROCE)</td>
<td>11%</td>
<td>9%</td>
<td>+2</td>
</tr>
</tbody>
</table>

1 Group and share of joint ventures from continuing operations.

2 Stated before non-underlying items. Reported Residential operating profit from continuing operations was £20.6m (2016: £19.5m).

3 Equates to average net debt.
Case studies: Silver Court, Brownhills, West Midlands

- Strong long-term relationships with Walsall MBD and Walsall Housing Group
- The 6th in a programme of schemes
- 3.5 ha site, brief to build 101 apartments in 2 blocks and 6 elderly care bungalows
- Masterplan to maximise private sales to deliver best value cross subsidy solution
- Land owned entirely by WHG, no value required for the land receipt
- [https://m.youtube.com/watch?v=Gr6QmGVxN1c](https://m.youtube.com/watch?v=Gr6QmGVxN1c)
Case studies: Silver Court, Brownhills, West Midlands

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

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

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

- **Shortage of housing in the UK**
  - Affordable and private
- **Well positioned**
  - Modest value range
  - National coverage, outside London
  - Provision of new build and maintenance
- **On track with Vision 2020 targets**
  - >15% ROCE on £200m capital base following Cross Keys joint venture

## V2020 progress

<table>
<thead>
<tr>
<th></th>
<th>FY 14</th>
<th>FY 16</th>
<th>FY 17</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital</td>
<td>£240m average</td>
<td>£231m average</td>
<td>£199m average</td>
</tr>
<tr>
<td></td>
<td>capital</td>
<td>capital</td>
<td>capital</td>
</tr>
<tr>
<td>ROCE</td>
<td>2%</td>
<td>9%</td>
<td>11%</td>
</tr>
</tbody>
</table>

**ON TRACK FOR V2020 TARGET**
Modern Methods of Construction

Design / Offsite / Component Form

- Ability to leverage Kier Construction Capability
- BIM innovators with in-house IP
- Case studies of full offsite manufacture
  - MoD, Hotels, Steel Frame
- Manufacture for build
  - “Roof in a Day”
Labour availability and Demographics

Skills Gap / Brexit

- Shaping your World
  - [https://shapingyourworld.co.uk/](https://shapingyourworld.co.uk/)
- 180,000 Non-UK construction workers impacted by Brexit
- Fundamental Image Gap
  - 73% of Parents would not want their child in construction
  - 2/3 of teachers and career advisors perceive the industry negatively
- Kier has 2,000 roles within the business
- Site labour is 10-20% non UK (approaching 40% in London)
Strong platform for future growth

- Leading market positions in robust and growing sectors
  - >90% of Group revenue and profit
- Stronger, simplified and focused Group
  - Portfolio simplification substantially complete
  - Well managed balance sheet
  - Improved order book
- Clear strategy and direction
- Confident to deliver growth in 2018
- On course to deliver Vision 2020 strategic targets
Financial appendix
Group net debt

Strong operating cash conversion\(^1\) of 113%

- Cash conversion consistently greater than 100% over the past five years
- McNicholas was acquired in July 2017 for £24m

\(^1\) Cash conversion is calculated by dividing operating cashflows by underlying operating profit.
\(^2\) Net debt is shown net of the impact of hedging instruments.
### Stable working capital

- Working capital improvement over the last three years was driven by improved processes and systems
- Supply chain finance use is limited and stable
  - Working capital benefit £30m-£40m
- Average net cash in Construction and Services increased by £60m to £200m
Well managed Group net debt

<table>
<thead>
<tr>
<th>Discipline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net debt : EBITDA(^1) &lt;1x</td>
</tr>
<tr>
<td>Peak Group net debt: Property &amp; Residential division asset cost &lt;1x</td>
</tr>
</tbody>
</table>

- Cash is a key metric
- Vision 2020 target of net debt: EBITDA\(^1\) <1x maintained at June 2017
- Net debt growth in line with EBITDA\(^1\) growth, maintaining core discipline

\(^1\) Arising on continuing operations. Stated before non-underlying items.
The quantum and timing of investments and disposals in Property and Residential increased average net debt from £280m to £320m.
Other appendix
Safety, Health and Environment

Vision 2020 Targets

- Accident incidence rate of zero
- Best in sector safety performance
- Workforce health and wellbeing improved
- Minimise the impact of our activities on the environment
- All employees take ownership of safety, health and environmental issues

Current Progress

<table>
<thead>
<tr>
<th>Leading indicators - examples</th>
<th>2017 target</th>
<th>Actual June 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director/senior manager visible leadership visits</td>
<td>300 / month</td>
<td>635 ✅</td>
</tr>
<tr>
<td>Front line management trained</td>
<td>83%</td>
<td>82% ✅</td>
</tr>
<tr>
<td>Reduction in sickness absence referrals</td>
<td>119</td>
<td>129 🔄</td>
</tr>
<tr>
<td>20% annual reduction – accident incidence rate</td>
<td>140</td>
<td>130 🔄</td>
</tr>
<tr>
<td>20% annual reduction – all accident incidence rate (lost time)</td>
<td>558</td>
<td>492 ✅</td>
</tr>
</tbody>
</table>

Accident Incidence Rate – June 2017

- HSE Benchmark

![Graph showing Accident Incidence Rate from 2014 to 2017](image-url)
## Portfolio simplification

<table>
<thead>
<tr>
<th></th>
<th>P &amp; L £m</th>
<th>Cash £m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>FY16</td>
<td>FY17</td>
</tr>
<tr>
<td><strong>Closure of businesses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caribbean</td>
<td>(23)</td>
<td>(60)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>(26)</td>
<td>(26)</td>
</tr>
<tr>
<td><strong>Sale of non-core operations</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mouchel Consulting</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Biogen</td>
<td>(5)</td>
<td>(8)</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross Keys</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>HSE</td>
<td>(8)</td>
<td>(8)</td>
</tr>
<tr>
<td>Environmental</td>
<td>(36)</td>
<td>(11)</td>
</tr>
<tr>
<td>Other$^1$</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>(62)</td>
<td>(75)</td>
</tr>
</tbody>
</table>

$^1$ Principally relates to a pension curtailment gain and other M&A gains, losses and costs.