We help clients to finance, plan, design, construct and maintain their assets. We are also delivering essential every-day services to our clients and communities.

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

Collaborative

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

Enthusiastic

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

Forward-thinking

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

We have a breadth of capabilities

Property

Our property development and financing business operates across the UK.

- Regional player
- Non-speculative focus
- Top 3 trader developer in the UK
- Occupier-led strategy
- 10-year visibility of pipeline
- Core scheme value £10m-£70m

Capabilities

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

Residential

Kier Living, our residential business, includes affordable mixed tenure and private house building. Its partners and clients include local authorities, housing associations and the private rented sector. It is well positioned across all tenures of new home build.

- Mixed tenure
  - National coverage
  - Broad capabilities – new build and maintenance services
- Private
  - Regional focus
  - Modest sales price range

Capabilities

- Affordable housing
- Mixed tenure housing
- Mixed-use communities
- Private rental sector
- Private residential housing
- Regeneration

Strength and breadth of capabilities

10-year visibility of pipeline

2,200 new homes built in 2016/17

Turn to pages 42-43 for more information

Turn to pages 44-45 for more information
Our unique investment proposition combines a record of performance with strong market positions, established client relationships and capital recycling.

**Market positions**
- Building – the UK’s leading regional builder with revenue of more than £1.8bn
- Infrastructure – one of the leading infrastructure players in the UK with revenue greater than £1.5bn
- Housing – a top provider of mixed tenure housing and maintenance services with a revenue of over £800m

**Long-term client relationships**
- A broad spectrum of clients across both the public and private sectors
- Established positions on numerous local, regional and national frameworks
- >£1bn of revenue derived from clients who work with two or more parts of the Group

**Specialist expertise and collaborative working**
- Breadth of capabilities that clients can draw upon
- Ability to provide a unique package of services
- Delivered in collaboration

**Efficient capital and resource model**
- A balanced capital model
- Ability to reinvest capital from cash generative businesses into asset-intensive parts of the Group
- Capacity to invest for the future
- A disciplined approach to capital allocation

**Robust financials**
- Track record of stable and reliable earnings
- Good visibility provided by long-term order book and pipelines
- >15% ROCE targeted from all capital investment
- A sustainable dividend
- Double-digit profit growth year-on-year on average to 2020

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**Construction**

Construction comprises UK building and UK infrastructure and international construction. Kier is a sector leader in the education and health markets.

- UK regional focus with national coverage and complementary Middle Eastern operations
- A high-volume of modest value building projects
- Diversified range of contracts
- Track record on national and regional frameworks
- Public and private sector balance

**Capabilities**
- Building – small works to major projects
- Civil engineering
- Construction management
- Design and build
- Engineering design
- Interiors and refurbishment
- Mechanical and electrical
- Rail services
- Technical services

**Services**

Services comprises strategic and local authority highways maintenance, utilities, housing maintenance, facilities management and environmental services. Kier provides essential, every-day services to our clients and communities.

- Specialist provider to the public and private sectors
- Broad client base including Highways England, Anglian Water and Thames Water
- No. 1 player in strategic highways
- Top 3 player in the utilities sector

**Capabilities**
- Highways maintenance and management
- Utilities services
- Waterway services
- Housing maintenance
- Facilities management
- Business services
- Environmental services

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**50/50**

public and private sector presence

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50/50 public and private sector presence

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No. 1 in strategic highways

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Turn to pages 46-47 for more information

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Turn to pages 48-51 for more information

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Kier Group plc | Report and Accounts 2017
We have the capabilities to invest, build and maintain any asset class in the UK

Kier focuses on building long-term relationships with its clients. Through understanding the needs of customers and utilising our breadth of specialist capabilities, we are able to work with clients to solve problems across a range of sectors.

What we deliver for our customers

Whatever a customer requires at any stage of the built environment lifecycle, one or more of our businesses can provide world-class solutions, individually or in combination, locally or nationally. Our extensive network of regional offices and our strong local relationships ensure that we can understand our clients and respond to their needs. The combined strength and capabilities of the Group allows us to respond rapidly when situations change.

Our strong customer relationships give us the understanding we need to provide the best, most reliable services and to tailor our offer accordingly.

Our strong cash generation and efficient capital recycling provide stability and the ability to invest for the future. Our focus on the safety of our people and our ability to embrace innovation and technology enable us to continually improve our customer service and our operating efficiency.

We take a customer-centric approach, using our combined capabilities for investing in, building and maintaining assets to develop tailored solutions for each customer.

**Invest**

Clients use Kier’s development expertise and equity to support every stage of a scheme, from gaining finance and planning permission through to end-to-end project management.

**Build**

The construction business offers outstanding technical skills that enable Kier to meet the most demanding quality, safety and efficiency standards.

**Maintain**

Kier works with clients to manage and develop their assets. A focus on working in collaboration on defined outputs ensures Kier delivers the added value clients seek.
Across our market positions
The following pages provide a snapshot of our market positions and opportunities in those markets.

Leading builder
The UK’s leading regional builder with positions in education, health and on public sector frameworks

>£1.8bn Revenue

Leading infrastructure player
Top three infrastructure player in the UK with a number one position in UK strategic highways

>£1.5bn Revenue

Leading provider of mixed tenure housing
A top three provider of mixed tenure housing and related maintenance services

>£800m Revenue
Kier is the UK’s largest builder with the capability to deliver projects ranging in size from hundreds of thousands of pounds to hundreds of millions of pounds.

A large and varied market
The UK building market is worth over £60bn. It covers both public and private sector work and includes a range of sectors including commercial, defence, education and health. Kier has a strong record across all areas, with leading positions in the health and education sectors and growing positions in new markets, such as aviation and biotech. With its regional office network, Kier is able to act as a local builder with local knowledge, anywhere across the country. Additional complementary opportunities exist in the facilities management sector.

Growing from strength
Even in areas where Kier is strong, there are opportunities to grow. For example in the health sector, where Kier is already the UK’s largest builder, we increased our penetration of the private healthcare market during the year by securing one of the four positions on the £500m Private Investment Construction (PIC) healthcare framework and commencing the development of a number of new private hospital developments.

Healthcare construction services market
- NHS new build
- Private new build
- NHS FM

Source: NHS Digital 2016, ONS
Broadmoor Hospital, Berkshire

Client benefit
The £242m Broadmoor Hospital redevelopment will transform the 150-year-old high security mental health hospital into a modern, fit-for-purpose environment with accommodation for 210 patients. Construction commenced in early 2014, and includes a two-storey main entrance building, three patient ward blocks, a three-storey central multi-function building, an energy centre and a new distribution road. Special consideration had to be given to the build given patients remained on site throughout the redevelopment. The construction utilises Kier’s bespoke off-site modular fabrication system, significantly reducing the project timetable.

Commenting on the development, Vivenne Mowatt, Redevelopment Programme Director for Broadmoor, said: “Kier took the time and made a real effort to get to know the local community and address any community issues – that really made a difference.”

Enabling our delivery
Client focus
Understanding specialised requirements for secure builds

Collaboration
Use of pre-cast concrete to increase efficiency and the speed of the build

Technology
Utilising Kier’s Building Information Modelling (BIM) capability to improve the sequence of delivery and installation of pre-cast sections
The UK Government has acknowledged that investment in infrastructure is critical to supporting economic prosperity for a growing population.

Significant infrastructure opportunities
The UK National Infrastructure and Construction Pipeline has £502bn of projects across sectors where Kier is strong, including road, rail, power, gas, water and telecoms. £201bn of this is beyond 2020/21, providing longevity as well as scale to the pipeline.

Market positions in key sectors
Kier has a leading market position combined with a track record in each of the major sectors covered by the National Infrastructure and Construction Pipeline. This now includes the telecoms and utilities market, following the acquisition of McNicholas which also significantly strengthened our position in the power and gas utilities markets. We already have a strong track record in power stations and have been working on Hinkley Point C since 2012.

In the transport sector, Kier is the leading provider of maintenance services for Highways England’s strategic road network, and has a leading position in the local authority highways market. Kier also has a strong track record in the major rail sector, for example Crossrail, and has recently with our joint venture partners, been awarded £1.5bn of contracts on HS2.
Spaghetti Junction, Birmingham

Economic benefit
The successful use of rapid set repair concrete on the M6 Rushall Canal and North East Spur viaducts enabled critical structural repairs to be completed within 24 hours over a 56-hour weekend programme. Consequently, an eight week programme was reduced to five weekends. The use of this latest innovation created a faster programme, minimising traffic delays and reducing the risk to the workforce and general public.

Enabling our delivery
Supply chain
Accredited with the international certification ISO 44001 for collaboration with the supply chain, one of only six companies worldwide

Safety
Working with Highways England, suppliers and the emergency services to keep operating safely

Innovation
Using tried and tested technology from around the world to bring innovation to the UK market
The UK continues to experience a housing shortage. Kier has a range of house building and maintenance services which can address this need.

A structural shortage of housing
There is a persistent shortage of new housing in the UK, with supply consistently falling short of the annual requirement, estimated at a minimum of 210,000. This is likely to worsen as the UK population expands. Despite UK Government initiatives to help people buy houses, the demand for new affordable houses will continue, as will the need to maintain the existing social housing stock of 4.1m homes.

All aspects of affordable housing
Kier is a leading provider of affordable housing, with capabilities across the value chain – from investing in land and development to maintaining stock for housing associations and local authorities. Kier combines the commerciality of a private, open-market developer with an understanding of the needs of local authorities and housing providers and the dynamics and pressures of the public sector. As such, it is able to adapt and create multi-tenure developments and models appropriate to differing client requirements.
Kier Living, Bourne, Lincolnshire

Social benefit
Kier Living is the first UK house builder committed to planting 45,000 new trees over the next three years to offset its carbon usage. It is looking at how it uses energy, disposes of waste and how it uses equipment. In addition, it is educating buyers on every-day energy saving ideas.

Enabling our delivery
Growth
Replicating a multi-tenure model throughout the UK

Technology
Helping customers keep on top of maintenance costs by installing smart, predictive technology in homes

Delivery
Has a target to deliver 4,000 new homes per annum by 2020

Turn to pages 44-45 for more information
I am honoured and delighted to be the newly appointed Chairman of Kier.

Philip Cox
Chairman

Full-year dividend per share

67.5p
(2016: 64.5p)

Earnings per share

106.8p
(2016: 99.5p)

On 30 August 2017, Phil White CBE stepped down from the Board as Chairman. On behalf of the Board, I would like to thank Phil for his contribution to the Group over the past ten years in which he has overseen the growth and change within the Company. I know many Kier employees have benefited from his counsel. Personally, I would like to thank Phil for his support during my induction and transition into my new role, which I took up on 1 September 2017. I look forward to working with the Board on the Group’s next stage of development.

Results
I am pleased to present the results for the year ended 30 June 2017. This year was an important one for Kier as we continued to make good progress against our strategy, Vision 2020. Over the last five years, Kier has tripled in size resulting in significant change in the business as new processes and systems are put in place and its portfolio of capabilities has changed. This year, we have substantially completed our two-year portfolio simplification programme focused on streamlining and simplifying the Group’s operations, allowing investment in the core businesses for the future. The strength of Kier lies in its teams and their ability to provide clients with a depth and breadth of capabilities across a number of specialist fields positioning us as the ideal partner to collaborate with.

Group revenue\(^1,2\) for the year ended 30 June 2017 increased by 5% to £4.27bn (2016: £4.08bn) and underlying operating profit\(^1\) increased by 3% to £146m (2016: £141m). Underlying profit before tax\(^1\) at £126m (2016: £116m) represented a 8% increase. Reported profit before tax of £26m (2016: a loss of £35m) includes non-underlying items, predominantly relating to the disposal of Mouchel Consulting and the portfolio simplification programme. The underlying basic earnings per share\(^1\) from continuing operations of 106.8 pence (2016: 99.5 pence) has increased by 7%. The Group’s net debt\(^4\) at 30 June 2017 was £110m (2016: £99m), at the lower end of expectations, following strong working capital management during the year. This performance has maintained a net debt to EBITDA ratio of less than 1x, in line with our Vision 2020 target.

After the year end, the Group completed its acquisition of McNicholas Limited, which strengthens the Group’s presence in the utilities and infrastructure services market. This acquisition builds on Kier’s strategy to maintain its leading positions in chosen markets. It is a highly complementary addition to our current utilities business and enhances our presence in the power, rail and telecoms markets.

Dividend
The Board is recommending a full year dividend for the year ended 30 June 2017 of 67.5 pence per share (2016: 64.5 pence per share), up 5%, reflecting the Board’s confidence in the Group’s prospects and intention to increase dividend cover towards 2x by 2020. Subject to shareholder approval, the final dividend will be paid on 1 December 2017 to shareholders on the register at the close of business on 29 September 2017. As an alternative to the cash dividend, shareholders will be offered the option to participate in a Dividend Reinvestment Plan (DRIP).

The macro environment
UK Government policy continues to support investment in upgrading the UK’s infrastructure, driving economic growth both nationally and regionally. The devolution of funding and decision-making, both locally and regionally, is now starting to gather pace with the establishment of mayoral authorities and increased collaboration between local authorities. Despite the uncertainties of Brexit, we have a strong position in a number of key sectors and our breadth of capabilities positions us well to address our clients’ needs.
Outlook

Kier has successfully grown its reputation as a company that can consistently deliver. Its success in the marketplace to date has shown it is trusted by its clients and supply chain.

Our underlying performance for the year was good. Having simplified our portfolio, the Group is more focused and able to pursue growth ambitions in our three core markets; building, infrastructure and housing, which now represent 90% of the Group’s revenue and profit. We continue to invest in the business to improve our operational efficiency, providing a robust platform on which to take advantage of the strong long-term fundamentals in these core markets.

Our Construction and Services order books of £9.5bn, together with our c.£2bn property development and residential pipelines, provide good long-term visibility of our future work. This visibility, coupled with our healthy balance sheet, provides us with confidence in achieving our Vision 2020 strategic targets.

Philip Cox CBE
Chairman
20 September 2017
In 2017, we made good progress operating in our core markets: building, infrastructure and housing. The two-year portfolio simplification programme has enabled the Group to strengthen its market-leading positions, laying robust foundations which improve our efficiency and provide a platform for growth.

**Q** How would you summarise Kier’s performance in 2017?

**A** From a strategic perspective, 2017 was a good year for Kier. We continued to simplify and streamline the Group, which enabled us to focus on our key clients and chosen markets and position ourselves for the future. Operationally, our core businesses continued to grow their market positions, especially the building and highways businesses.

Financially, 2017 also confirmed the strength of our underlying business. We saw organic growth in revenue and operating profit across the Group, and achieved a net debt position which was at the lower end of market forecasts. At year end, our Construction and Services order book was approximately £9.5bn including the McNicholas order book, which secures around 90% of our work for 2018. Our Residential housing business performed well, and our Property division pipeline expanded to around £1.4bn, which will provide excellent development opportunities over the next ten years.

Overall, our performance in 2017 provided further validation of our core market verticals – building, infrastructure and housing – we have chosen to pursue. These positions now firmly underpin the future direction of the Group and support our proposition of Invest, Build and Maintain. I believe we have the ability to be the UK market leader in these markets, and to exploit cross-selling opportunities between our businesses to the benefit of our clients.

**Q** What has the portfolio simplification programme involved and what are the implications for the business?

**A** We’ve been engaged in the process of portfolio simplification since 2015. It has involved closing operations in territories where new business prospects have significantly declined, and selling businesses that were not aligned with the strategic direction of the Group, and/or did not deliver our minimum ROCE hurdle of 15%. For example, during 2017 we closed down our operations in the Caribbean and in Hong Kong, and completed the sales of Mouchel Consulting and Biogen.
These activities were challenging and, in this respect, it was a busy year, as we undertook these changes while keeping our core businesses on track. Importantly, our core operations not only traded well but managed to gain market share and deepen client relationships. We also maintained the strength of the Group with a positive cash performance and a well-controlled pension deficit, creating a robust year end balance sheet. The financial impact of the portfolio simplification programme, together with certain other non-underlying items on the Group’s 2017 results, was a non-underlying charge of £75m (see page 54 for more information). The programme also generated net cash of £67m, the significant majority of which was invested in the Property and Residential divisions.

With the portfolio simplification programme now substantially complete, I believe we have emerged from this period a more agile, efficient and focused organisation with a growth trajectory ahead of us.

Q Given the scale of the exceptional charges in the 2017 results, how has this impacted on your risk appetite, particularly when operating overseas?

A In simple terms, it’s important to know your clients and your supply chain, and have your best people available who understand the risks, the nature of the contract and its terms and conditions. The Group continues to operate overseas in the Middle East and Australia. While geography and local knowledge are critical, the principles of risk management still apply. I’m very mindful that one poorly performing project can impact on our profitability and importantly our reputation. The Caribbean operations have demonstrated how significant losses can be incurred and over the past three years we have implemented a very rigorous and disciplined bidding process. This, in addition to our review of procedures during project delivery, will underpin consistent operating margins and further strengthen our client relationships. With a broad portfolio, we are able to mitigate the challenges which can arise from the contracting environment.

Q How was the Group’s safety performance in 2017 and how will you continue to improve your safety ethos?

A Safety continues to be a key priority. During 2017, we broadened our approach to incorporate the health and wellbeing of our employees. We achieved an accident incidence rate (AIR) of 130, an improvement of 38% compared to 2016 and well below the average industry benchmark of 480.

Our performance in 2017 was the culmination of recent efforts to enhance our safety record. Our goal is to reduce our AIR to zero by 2020, and as we continue to bring this rate down the challenge will be how to eliminate minor slips, trips, falls and similar incidents. To this end, we are exploring innovative new ways of communicating safety messages and engaging our employees and suppliers. We encourage them to share good ideas and improve our safety culture across all projects and contracts.

In 2017, we increased the number of Visible Leadership Tours to help refocus attention on safety. We also increased the coverage of our safety training and behavioural change initiatives across the Group. Ultimately, safety comes down to attitude. We run our sites in line with a set of core principles we refer to as the ‘Five Basics’ (see page 32 for more information). These principles are designed to promote awareness, accountability and rigour, and to discourage people from taking risks and shortcuts in their day-to-day work.

The recent increase in fines for health and safety incidents, following the introduction of new sentencing guidelines in 2016, was a key consideration this year. In line of the new requirements, in 2017, we recorded a provision of £5m in this year’s results to cover potentially increased fines for historic safety incidents. However, while we support the intention and principle of the regime, we are mindful that the fines levied to date by the Health and Safety Executive have been wide ranging in value. We will therefore continue to monitor the situation carefully.

Q What sets Kier apart from the competition?

A There are very few UK competitors who can match the breadth and scale of services we offer. Invest, Build and Maintain is at the heart of our business and demonstrates the range of services and operational flexibility we have within the Group. Indeed, we can take on any asset or project and meet a client’s funding, development, construction and maintenance requirements. We can do this either as a single activity or as a combination of these activities, whether it’s a property development, a new school, road construction or a facilities maintenance package.

Today, we encourage different businesses within the Group to pursue business development opportunities together. From customer research carried out during 2017, we know that our clients value collaborative partnerships that support their objectives. It’s not a one-size-fits-all approach. It’s about offering core expertise reinforced by the wider scale of the Group. Our unique strength is that we can offer add-on capabilities, either from the outset or as projects evolve, which in turn increases the depth of our client relationships. Currently c.30% of our revenue is generated from clients that work with two or more businesses in the Group, a trend we aim to increase.

Our strategy is focused on organic growth. We seek complementary merger and acquisition opportunities which will expand our offering and we invest in the development of the enlarged business. For example, Kier has a relationship with Highways England which was enhanced with the Mouchel acquisition. McNicholas, acquired in July 2017, further enhances our presence in power, rail and telecoms, making us a top three player in the UK utilities sector. Most importantly, Kier is a company with a good track record of delivery and is trusted by our clients and partners. This has played a major role in our ability to deliver day-in day-out.

Q What about Brexit and the current political uncertainty in the UK – how will these developments affect the business?

A We derive strength not only from the scale of our business, but from the nature of the work we undertake. Firstly, we specialise in markets that are key focus areas for the UK Government, such as housing and infrastructure, where investment in new build or maintenance is likely to continue for some time. Secondly, in our Services division especially, we deliver essential every-day services. These services – for example school and hospital extensions, road network maintenance – are required all year round, regardless of the prevailing political agenda. This means we can maintain operational stability and pursue growth.

Even with major projects that require government intervention and approval, our position is somewhat protected.
We are continually exploring new and innovative ways of communicating safety messages and engaging employees about our safety culture.

For example, if there were delays in major capital works due to Brexit, funds are likely to be redeployed into other areas – such as power distribution and utilities – where our core infrastructure businesses operate. The recent awards of the £1.5bn HS2 projects to the CEK joint venture, in which we have a one-third share, shows the political commitment to infrastructure investment. There has been lots of discussion about the availability of labour and skills. To date, we have experienced no material change in the supply of labour. However, we are monitoring this situation particularly within the supply chain.

How would you define the Kier company culture?

At Kier, our people really live our values – Collaborative, Enthusiastic and Forward-thinking. This should come as no surprise, because our people chose these values based on the qualities that matter most to them. When I’m out in the business, I’m really pleased to see the pride our people take in their work, and in the legacy that we continue to build.

We work hard to maintain an open and inclusive culture where everyone feels welcome and can be themselves. Indeed, new joiners often comment on how open and welcoming Kier is. This is something we are keen to build on. We want to encourage people of all ages and backgrounds to join us, thrive and progress. Our Balanced Business Network and recently launched Shaping Your World campaign, are great examples of how we are raising our profile among wider groups of potential recruits.

As we grow, we want to retain the best aspects of our culture while evolving it to reflect the changes in our business. When we consider mergers, acquisitions and joint ventures, we think carefully about cultural fit and combination, and whether a new business can strengthen or enhance what we have. It’s also important that we keep listening to our colleagues to understand their experiences of working at Kier. We want our people to feel confident that we will take action to improve things where we can.

Our culture is hugely important to us, and is a key factor in attracting and retaining the people we need to drive the business forward. And, of course, our people are at the heart of this culture and make Kier what it is today. Dating back to the 1980s, our history is one of employee ownership, and over the years this has created an environment in which every individual takes a deep and genuine interest in the performance of the company.
We take a customer-centric approach to service delivery and development. By using our combined capabilities to invest in, build and maintain assets, we deliver for our clients and create value for all our stakeholders.

Delivering for our customers

Creating value for all our stakeholders

**Investors**
- A sustainable dividend policy
- Average annual dividend growth since 2014: **19%**

**People**
- Engaged people who are able to grow and develop
- Engagement: **60%**

**Customers**
- Helping customers achieve their goals
- Customer satisfaction: **91%**

**Community**
- Operating in a way that benefits the community
- BITC score: **91%**

**Environment**
- Reducing our impact on the environment
- Energy reduction target by 2030: **30%**

Turn to pages 30-33 for more information on operating a safe and sustainable business.
How, in these uncertain times, do you ensure you have the right flow of people into the business?

We know that homegrown skills and labour will be critical in the years ahead, which is why we’re fully committed to making our company and our sector as attractive as possible. To this end, in September 2017 we launched Shaping Your World, which informs pupils aged 11-15 about careers in construction and the wider built environment. As part of this campaign, we have created the ‘Kier 1% pledge’ which commits that over 200 Kier employees will visit schools as our ambassadors to talk about the diverse career paths on offer across the Group, from quantity surveying to civil engineering. This activity will also help to recruit older students for our apprenticeship programmes and graduate schemes.

As a member of the 5% Club, we also ensure that 5% of our workforce is made up of apprentices and graduates. We have a strong track record of providing dedicated and tailored development to our existing employees, giving them the career support and guidance they require.

Personally, what highlights or events stood out for you during 2017?

Throughout the year, we demonstrated that we can grow both organically and through acquisition. The substantial completion of the portfolio simplification programme was a significant achievement, as it enables us to move forward with clear focus and direction. We have invested in systems and infrastructure such as a new finance shared service centre in Manchester which creates important back-office support enabling the business to deliver and grow. The performance of our highways business also underscored the viability of our model.

We remain focused on delivering our Vision 2020 strategy – continuing to develop the business remains a priority.
The end of June saw the tragic events at Grenfell Tower. We have been reviewing the use of cladding and projects undertaken in the building business and on clients’ estates where Kier provides either maintenance or facilities management services. The construction of high-rise residential tower blocks is not a core activity of Kier, but the discussion relating to cladding has extended to other types of developments and therefore we continue to work with clients to address their challenges.

What are your priorities for the new financial year?

We remain committed to delivering on our Vision 2020 strategy, and achieving our financial and non-financial goals. I am particularly focused on improving the quality of our products and services while increasing our efficiency. I believe that by looking at new ways to share ideas and solve problems, we can develop Group-wide solutions which will provide further growth opportunities.

In the coming year, we will establish a new £1m innovation seed fund for our teams to help make this a reality. Our newly-created Innovation team and the #forwardthinking@Kier plan will be critical to this process, as we embrace the technological developments that are occurring across the Group and in the marketplace. Consequently, we have updated one of our strategic priorities to reflect this focus – embracing innovation and technology across our business. However, as well as new investment, we continue to look at ways to transfer technology already used in other markets to our businesses such as virtual and augmented reality. We are looking at new ways that technology can help our clients deliver, for example, smart recycling where data collection can help councils understand the behaviours of their customers and intelligent technology in homes and offices which provides data that helps you understand the wear and tear of living and working in buildings.

What’s the outlook for the business, and what are your immediate priorities?

Following the portfolio simplification programme, we are in a strong position to pursue our growth strategy with a focus on organic growth. Within this strategy, we have set ourselves the goal of increasing our operating profits, on average, by 10% every year, and in 2017 we saw ongoing improvement in the quality of our earnings and margins.

Looking ahead, we will focus on operating as efficiently as possible. In 2017, we invested £40m in our back-of-house capabilities to ensure we can optimise our performance and successfully assimilate all future acquisitions. The continued roll-out of our £70m back-office system investment, and the integration of our customer relationship management system, will provide a robust platform from which we can further streamline processes and drive innovation through the business. These investments will stand us in good stead as we move forward.

I believe the general outlook for the business is positive, with a strong order book, healthy balance sheet, and buoyant core markets supported by government policy.

We are now ready to take the next step on our journey, and I look to the future with confidence.

Haydn Mursell
Chief Executive
20 September 2017
Markets with strong fundamentals

Whilst political events since 2016 have introduced new uncertainties into the UK macro environment, the fundamental drivers of our markets remain the same. Kier is well positioned to navigate macro uncertainty because of its strong market positions, customer relationships and financial strength.

Aligned to fundamentals

Demographics driving key Kier sectors

UK Government spending on schools, hospitals, rail and road capacity, and housing are all fundamentally based on changing demographics. As well as the overall UK population growing, in the 10 years to 2024 the number of people over 75 years old will increase by 35% and the number of school-age children, aged 5 to 15, will increase by 13%. Whilst the consequent need for increasing capacity in our infrastructure (including social infrastructure, such as schools and hospitals) will persist regardless of changes in Government policy, Kier’s ability to invest in, build and maintain assets means that it will be able to adjust its offer to reflect changes in Government priorities.

There is cross-party support for UK infrastructure spend, both to create this capacity and as a fiscal stimulus. Whilst we have seen some delays in decision-making, as in the case of Hinkley Point, the award of HS2 contracts and the recent announcement of the Government’s support for Crossrail 2 has shown that infrastructure is a priority area. Kier’s business portfolio and capabilities cover most areas of the National Infrastructure and Construction Pipeline, which includes power and gas networks, nuclear power stations, HS2, broadband and transport infrastructure.

Continued demand for new affordable housing

There is a structural shortage of housing in the UK that shows no sign of abating. The lowest annual estimate of new homes required is 210,000, but estimates vary up to 300,000. Demand continues to be strong, with the private development market maintaining sales rates at expected levels. Although certain parts of the house buying market, such as the secondary housing market, have slowed, demand in our core market sectors, such as mixed tenure, has been resilient and we reasonably expect this to continue.

New build housing (’000 units)

Source: Department for Communities and Local Government (DCLG)

UK National Infrastructure and Construction Pipeline (£bn)

Further £201bn pipeline post 2020/21

Source: HM Treasury and Infrastructure and Projects Authority 2016
Kier will benefit from increased use of technology
Technology is central to many sectors and to modern living, and is increasingly impacting built environment-related markets. We are actively pursuing and investing in market opportunities created by technological change. For example, the shift in the retail sector towards online shopping opens up opportunities to invest in and build distribution centres. Similarly, our acquisition of McNicholas places Kier at the heart of the need to extend the UK’s broadband network to support the digital economy.

UK home and small business broadband

With increased focus on innovation, Kier is also looking at ways of using technology directly to improve operational efficiency and develop customer-centric offerings.

Pressure on Government finances
The UK Government’s financial position has improved – public sector net borrowing in 2016/17 was £46bn (2.4% of GDP), compared to £136bn (8.6% of GDP) in 2011. Nevertheless Government budgets remain under pressure, with tension in public policy between those who advocate continued austerity and those arguing for stimulus. If austerity continues to the same extent, it provides Kier with continued opportunities to invest and work innovatively with customers to deliver their goals in financially constrained circumstances. If, by contrast, public spending restrictions are relaxed, it is likely that the extra spending will be on social and transport infrastructure.

Brexit uncertainty will persist
Brexit remains a source of uncertainty in the UK and has a potentially distorting effect on the UK’s political and economic cycles. Given the delay in the start of the UK/EU negotiations, it remains too early to assess the effects, although we continue to monitor developments closely. It is likely that the UK will see a period of change and uncertainty that will go beyond the scheduled exit date of March 2019. Despite any change to political priorities, Kier will continue to focus on businesses aligned with market fundamentals. Kier’s ability to ride the current uncertainty is supported by its market positions.

Strong market positions
We have strong market positions in each of our building, infrastructure and housing verticals, and market leading positions in several key market sectors, such as highways maintenance, utilities and health and education construction. These strong positions and the associated customer relationships provide resilience to market changes, and enabled us to grow faster than the market. In 2017 we achieved a 5% organic growth compared to c.1% market growth. Our capability in property and residential development supports the efficient capital recycling aspects of our business model and increases our ability to invest in the long-term sustainability of the business.

UK construction services market share

Strong market positions
We have strong market positions in each of our building, infrastructure and housing verticals, and market leading positions in several key market sectors, such as highways maintenance, utilities and health and education construction. These strong positions and the associated customer relationships provide resilience to market changes, and enabled us to grow faster than the market. In 2017 we achieved a 5% organic growth compared to c.1% market growth. Our capability in property and residential development supports the efficient capital recycling aspects of our business model and increases our ability to invest in the long-term sustainability of the business.

Construction market forecast

ONS (actual)  CPA  Experian
Progress and actions

During the year, we have made good progress in delivering our six strategic priorities.

Operate a safe and sustainable business

What we did in 2017

- Launched an enhanced, real-time safety reporting platform to improve information flow to management.
- Continued our behavioural change programme for employees – demonstrating how to work better as a team to keep each other safe.
- Delivered a 38% year-on-year improvement on 2016 in the reportable accident incidence rate (AIR).
- Achieved our 2020 carbon footprint reduction target of 10%, ahead of plan.
- Launched our Social Value impact strategy to create a consistent approach to delivering social value across the Group.
- Rolled out our new employee Code of Conduct.

Future commitments

- Drive reduction in the all accidents incidence rate (AAIR) metric, not just reportable accidents.
- Create a supply chain portal to help suppliers understand Kier standards, process and safe systems of work.
- Roll-out ‘30 by 30’ initiative to reduce our energy use by 30% by 2030.
- Extend employee Code of Conduct training.
- Introduce training for all employees on the new Modern Slavery Act.
- Extend non-financial KPIs in executive remuneration package.

28% Average annual improvement in AIR since 2014

91% Improved BITC score

10% 2020 carbon footprint reduction target achieved early

19,741 Employee community hours

Our strategy in action

As part of Kier’s corporate responsibility strategy, Kier has a goal to reduce its use of energy by 30% by 2030. The ‘30 by 30’ initiative was launched with an employee event, hosted by Haydn Mursell (centre), and will deliver significant environmental and business benefits across the Group.
Accelerate growth to be a top three player in our chosen markets

What we did in 2017
- Report organic growth of 5% compared with average construction services market sector\(^1\) of c.1%.
- Kier was chosen as a preferred bidder on the P22 framework, a large public sector framework, enabling us to maintain our leading market position in healthcare construction.
- New contract wins with Highways England helped bolster our number one market position in highways.
- Our Property division increased its presence in regional markets.
- Secured a place on all five regional panels of the Homes and Communities Agency’s DPP3 framework, worth £8bn over four years, supporting our presence in the mixed tenure market.

Future commitments
- To use our Group-wide technical capabilities to increase cross-selling and tailored solutions for customers.
- Improve our market share in growth sectors, such as aviation and biotech.
- Develop our position in the residential market, taking advantage of excess demand.
- Continue to grow our infrastructure activities.
- Build on our acquisition of McNicholas, particularly in the telecoms and power sectors.

#1 in healthcare construction market
£1.5bn HS2 joint venture contract awarded
£9.5bn Order book (including McNicholas)
£2bn Property and residential development pipeline

Our strategy in action
The acquisition of leading infrastructure services provider McNicholas strengthens Kier’s presence in the utilities and infrastructure services sectors. McNicholas is an established UK engineering services provider to the UK’s multi-utility sectors including power, rail and telecoms. Working across the UK, it employs 1,880 people and has a client base which includes Virgin Media, Network Rail and UK Power Networks.

\(^1\) Source: Construction Products Association Summer 2017, DNS.
Achieve top-quartile performance and efficiency

**What we did in 2017**

- Opened a new finance shared services centre (FSSC) in Manchester employing 210 people.
- Introduced front-line IT systems in our Services division, to drive efficiency and improve customer response times.
- Achieved 70% roll-out of an Oracle ERP system to provide improved back-office systems.
- Our Residential division established a joint venture with Cross Keys Homes to enable more efficient use of capital.
- Portfolio simplification programme continued with the sale of Mouchel Consulting and contract mining activities in the Middle East.
- Substantially completed Hong Kong contracts and the exit from the Caribbean.

**Future commitments**

- To complete exit from the Caribbean.
- Increase productivity by investment in front-line systems in our Services division.
- Complete back-office and ERP roll-out.
- Introducing ‘operating model inefficiency’ as a principal element in our risk management process.
- Continue use of joint ventures in our Property division to manage risk and enhance returns.

>£90m
Proceeds from the sale of non-core operations

340,000
FSCC transactions

£70m
Investment in back-office systems

Our strategy in action

Kier has invested £70m in upgrading its systems to improve the efficiency of its back-office systems and the customer responsiveness of its customer systems. Part of the investment has also seen the creation of a new finance shared service centre in Manchester. The systems investment will put all the businesses on the same platform providing consistency of delivery and improved data collection.
Provide sector-leading customer experience

What we did in 2017
› Launched a Group-wide customer policy.
› Carried out extensive research on customer needs and buying trends.
› Established eight regional cross-selling forums involving businesses and sector specialists from across the Group.
› Upgraded CRM system and established standardised reporting to assist information sharing.

Future commitments
› Continue to drive opportunities to secure repeat business and cross-sell Group services.
› Review the findings of customers research and development action plans accordingly.
› Introduce a new single-operating system for Kier Living.

91% Customer satisfaction

>£1bn Revenue from clients buying more than one Kier service

76 Key account managers

Our strategy in action
To create a consistent flow of data from sales through to customer care, Kier Living is investing in a new single operating system that can be used across the whole division, ensuring consistency of approach and better sharing and efficiency of information flow. The new solution, called Marble, will enable coordinated marketing campaigns and provide customers with real-time information which improves the quality of service they receive throughout the buying cycle.
Strategic performance continued

Strategic Report

Attract and retain motivated and high-performing teams

**What we did in 2017**

- Implemented a new leadership development programme.
- Launched a talent development course for employees showing leadership potential.
- Increased participation in our ‘pulse’ survey of employee engagement from 38% in 2015 to 73% in 2017.
- Launched the Balanced Business Network to support greater diversity and inclusiveness across the Group.
- Extended apprenticeship opportunities by introducing a new model for new and existing employees.
- Improved employee benefits, including an improved Retirement Savings Plan and a flexible benefits programme.
- Supported the Institution of Civil Engineers’ campaign to recruit 150,000 civil engineers.

**Future commitments**

- To support employee progression and development via clearly-defined career paths.
- Respond to the ‘pulse’ survey feedback relating to employee development and workplace change.
- Broaden the scope of our Balanced Business Network beyond gender diversity.
- Extend our apprenticeship offer into new and higher skilled opportunities.
- Increase our reach and profile to ensure we attract the best people from a diverse talent pool.
- Continuing to develop local, self-funding incentives programmes to reward improved productivity and customer service.
- Encourage 11-15 year-olds to consider a future career in the construction sector. At the heart of this is our Shaping your World initiative, launched in September 2017.

**Key Figures**

- **>5%** Employees in early career programmes
- **68:32** Graduate diversity (male:female)
- **18k** Number of employees
- **5 days** Target training days per employee p.a.
Embracing innovation and technology across our business

What we did in 2017
- Extended innovation into one of the Vision 2020 six strategic priorities.
- Appointed a Group Innovation Director to facilitate delivery, ensuring key platforms are rolled out.
- Established a Group-wide innovation forum.
- Launched our innovation plan: #forwardthinking@Kier.

Future commitments
- Launch the Kier Accelerator Fund to encourage new ideas/investment.
- Ensure that every division has access to an ideas sharing platform.
- Establish a clear digital strategy for all businesses to be supported by information management strategy and digital life-skills programme.
- Create new ways to use data to drive efficiency and service development.

£1m pa  £30m  1,000
Kier Accelerator Fund  Estimated R&D spend  Target contributors to innovation platforms

Our strategy in action
With ‘forward thinking’ being one of Kier’s values, the Group is always looking at ways to be innovative or provide fresh thinking in its projects. The Group’s recently launched innovation plan sets out ways to engage, capture, reward and share ideas across the Group. Innovation showcases have taken place throughout the year across the Group showcasing latest technology and thinking, how technology can improve productivity and where tried and tested innovation from other markets and countries can be used within our business. One example, Robocut, a robotic lawn mower to cut across verges adjacent to roadways across the UK, reduces the exposure of colleagues to dangerous situations; reducing the risk of accidents and saving lives.
Key performance indicators

Measuring the successful delivery of our strategy.

## Financial

<table>
<thead>
<tr>
<th>Key performance indicator</th>
<th>Progress in 2017</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue growth</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td><strong>£4.3bn</strong></td>
<td>Our revenue growth in the year of 5% was organic and continues to be ahead of the market growth rate. We have averaged 13% annual revenue growth since Vision 2020 was launched in July 2014.</td>
</tr>
<tr>
<td><strong>Underlying operating profit</strong>&lt;sup&gt;3&lt;/sup&gt;</td>
<td><strong>£145.6m</strong></td>
<td>Our average growth rate of 18% since 2014, when Vision 2020 was launched, is ahead of our stated target. Our underlying operating margin at 3.4% represents top quartile performance in our sector.</td>
</tr>
<tr>
<td><strong>Underlying EPS</strong>&lt;sup&gt;3&lt;/sup&gt;</td>
<td><strong>106.8p</strong></td>
<td>Underlying earnings per share continues to improve reflecting profit improvements in all businesses, especially Property and Residential, and reduced net finance costs.</td>
</tr>
<tr>
<td><strong>ROCE</strong></td>
<td><strong>14.1%</strong></td>
<td>ROCE increased slightly despite increasing capital employed through greater investment in our Property and Residential businesses. Both these businesses have good ROCE performance, with Property achieving 23%.</td>
</tr>
<tr>
<td><strong>Underlying economic profit</strong>&lt;sup&gt;4&lt;/sup&gt;</td>
<td><strong>£63.1m</strong></td>
<td>We seek to generate returns that exceed our weighted average cost of capital, currently 8.0%, to ensure we add value to investment decisions. Underlying economic profit increased 6% in the year as a result of more efficient use of capital in generating profits.</td>
</tr>
<tr>
<td><strong>Debt cover</strong>&lt;sup&gt;5&lt;/sup&gt;</td>
<td><strong>0.7x</strong></td>
<td>Having surpassed our target ratio of 1.0x underlying EBITDA ahead of schedule last year, we have maintained this discipline in 2017. We also continue to ensure that peak net debt is asset backed.</td>
</tr>
<tr>
<td><strong>Shareholder returns (Dividend per share)</strong></td>
<td><strong>67.5p</strong></td>
<td>The total dividend declared this year is £65.5m, which represents a CAGR of 19% since 2014, when Vision 2020 was launched.</td>
</tr>
</tbody>
</table>
## Non-financial

<table>
<thead>
<tr>
<th>Key performance indicator</th>
<th>Progress in 2017</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Safety – Group accident incidence rate (AIR)</strong></td>
<td>130</td>
<td>We have achieved a 38% improvement in the reportable accident rate, with an average annual improvement since 2014 of 28%. Monthly safety visits by every director in the Group continue to be an important driver of safety. Against a target of 3,600 visits, we undertook 5,861 visits in the year, a 23% improvement on last year.</td>
</tr>
<tr>
<td><strong>Customer experience</strong></td>
<td>91%</td>
<td>Our customer satisfaction performance, improved from an already high-base reflecting our focus in this area.</td>
</tr>
<tr>
<td><strong>Employee engagement</strong></td>
<td>60%</td>
<td>Full employee surveys are carried out biennially and the next survey will be in 2018. In between we undertake ‘pulse’ surveys to test progress, with the most recent returning an increased participation of 73%, but a slight decline in engagement to 56%. The feedback, which we are addressing, particularly reflected the volume of activity and change within a number of businesses and the need to continue to develop people.</td>
</tr>
<tr>
<td><strong>Employee retention</strong></td>
<td>88%</td>
<td>Employee retention remains a key focus and we continue to prioritise engagement, development and inclusion.</td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
<td>91%</td>
<td>We have improved our score against our benchmark sustainability metric. This reflects Kier working with a range of stakeholders to create value in line with our sustainability strategy.</td>
</tr>
<tr>
<td><strong>Strategic priorities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operate a safe and sustainable business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accelerate growth to be a top three player in our chosen markets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Achieve top quartile performance and efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide sector-leading customer experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attract and retain highly motivated, high-performing teams</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Embracing innovation and technology across our business</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Kier uses non-GAAP performance measures as the Board believes these give a better assessment of the underlying performance of the Group and progress against its strategic objectives.

1 Financial information in this table relates to continuing operations. Prior year comparatives have been restated to reflect the reclassification of UK Mining as continuing operations and Mouchel Consulting and Biogen as discontinued operations.

2 Group and share of joint ventures.

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

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

5 Including finance leases. Net debt is stated after the impact of hedging instruments.
Operating a safe and sustainable business

Operating a safe and sustainable business is one of the six strategic priorities we identified in Vision 2020. We deliver this through our strategy for sustainable business – Responsible Business, Positive Outcomes – developed in consultation with a range of stakeholders.

This strategic report comes midway through the timeline for Vision 2020, Kier’s plan for growth. Operating a safe and sustainable business is a key priority identified in Vision 2020 (see page 22 for more information). We will deliver this through our strategy for sustainable business, Responsible Business, Positive Outcomes (RBPO), which was developed in consultation with a range of stakeholders including clients, shareholders and employees.

RBPO is not only a strategic priority in its own right but enables the delivery of several important objectives. For example, improved safety and environmental performance helps us to reduce harm, function more efficiently and reduce our operating costs, cultivating a diverse workforce supports innovative thinking, and our community projects help us to attract and retain high-calibre people. Many sustainability strategies focus heavily on compliance and improved efficiency. While these areas will always be important, there is an increasing emphasis on social value in public procurement contracts. Consequently, we have designed our RBPO strategy so that it adds to our competitive advantage, helping us win new work and create added value. During the year, we revised some targets in RBPO as a result of early achievement of some of our original objectives and structural changes in the Group. (For more information see our Corporate Responsibility Report at www.kier.co.uk).

Understanding what is material to our stakeholders

Sustainability is key to our strategy

In an independent assessment of our RBPO strategy by Business in the Community, our score improved from 87% to 91% year-on-year.

RBPO has four themes that directly support Vision 2020, each with five performance areas (see table opposite). In this Annual Report we provide commentary principally on three areas recognised as most material by our stakeholders (business ethics, safety, health and wellbeing, and customer experience), and those we are required to disclose by the reporting environment we operate in. Areas not covered in this report are fully disclosed on the Kier website and in our Corporate Responsibility Report available at www.kier.co.uk.
As part of our aim to drive greater transparency on non-financial reporting, we regularly engage with a broad range of stakeholders. This has allowed us to identify which areas of non-financial performance are of importance to them. Business ethics was one of the top three priorities identified, notably by institutional shareholders.

At Kier we want to create a culture that doesn’t treat compliance as a box-ticking exercise, but something that is essential to any ‘good’ business. This is illustrated by the approach we took last year to simplify and then roll-out our Code of Conduct. A copy of the code was provided to all employees and Kier is now delivering supplementary relevant training. Employee engagement is essential for a responsible and sustainable business which is why we continue to encourage our staff to report concerns and have a confidential whistle-blowing helpline.

### Our 20 performance areas

<table>
<thead>
<tr>
<th>Performance area</th>
<th>2020 target</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business ethics</td>
<td>Revised target to train employees on the Code of Conduct</td>
<td>✓</td>
</tr>
<tr>
<td>Governance – risk and opportunity</td>
<td>Quantify risk across non-financial measures</td>
<td>✓</td>
</tr>
<tr>
<td>Stakeholder engagement</td>
<td>Annual independent review by BITC</td>
<td>✓</td>
</tr>
<tr>
<td>Reward scheme</td>
<td>Incorporate non-financial measures in remuneration</td>
<td>✓</td>
</tr>
<tr>
<td>Governance – reporting and assurance</td>
<td>Integrated reporting to GRI Reporting Standards</td>
<td>✓</td>
</tr>
<tr>
<td>Safety, health and wellbeing</td>
<td>Zero accident incidence rate (AIRD)</td>
<td></td>
</tr>
<tr>
<td>Employees – engagement and retention</td>
<td>75% employee engagement</td>
<td></td>
</tr>
<tr>
<td>Training, education and apprenticeships</td>
<td>5 training days per year per employee</td>
<td></td>
</tr>
<tr>
<td>Society and community</td>
<td>10% additional social value created</td>
<td></td>
</tr>
<tr>
<td>Diversity</td>
<td>70:30 male: female ratio for graduate, trainee and apprentice recruits</td>
<td></td>
</tr>
<tr>
<td>Customer experience</td>
<td>90% customer satisfaction</td>
<td></td>
</tr>
<tr>
<td>Citizenship and community engagement</td>
<td>Revised target – to reflect structural change in the Group</td>
<td></td>
</tr>
<tr>
<td>Sustainable supply chain</td>
<td>Partners engaged in the Supply Chain Sustainability School (SCSS)</td>
<td></td>
</tr>
<tr>
<td>Labour standards and human rights</td>
<td>Meet core principles of UN Declaration of Human Rights</td>
<td>✓</td>
</tr>
<tr>
<td>Supply chain</td>
<td>100% compliance with Kier material standards</td>
<td></td>
</tr>
<tr>
<td>Carbon</td>
<td>Updated target set in 2017 – 30% reduced energy use by 2030</td>
<td>✓</td>
</tr>
<tr>
<td>Waste</td>
<td>30% relative reduction from 2014 baseline</td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>10% reduction from 2015 benchmark</td>
<td></td>
</tr>
<tr>
<td>Biodiversity</td>
<td>Revised target – to reflect structural changes in the Group</td>
<td></td>
</tr>
<tr>
<td>Environmental incidents</td>
<td>20% reduction in all-environment incidence rate (AIRD) from 2015 benchmark</td>
<td></td>
</tr>
</tbody>
</table>

**Key**

- ✓ Achieved 2020 target
- ↓ On course to meet target
- ↑ Improved performance from 2016
- ↔ Revised target
- ↓ Below target

### Business ethics

As part of our aim to drive greater transparency on non-financial reporting, we regularly engage with a broad range of stakeholders. This has allowed us to identify which areas of non-financial performance are of importance to them. Business ethics was one of the top three priorities identified, notably by institutional shareholders.

At Kier we want to create a culture that doesn’t treat compliance as a box-ticking exercise, but something that is essential to any ‘good’ business. This is illustrated by the approach we took last year to simplify and then roll-out our Code of Conduct. A copy of the code was provided to all employees and Kier is now delivering supplementary relevant training. Employee engagement is essential for a responsible and sustainable business which is why we continue to encourage our staff to report concerns and have a confidential whistle-blowing helpline.

### Good governance – how we manage our business

Kier has several committees and specialist topic groups that work across the business to support Vision 2020 and RBPO. The work of the Board Committees is covered on pages 70 to 83.

The Risk Management and Audit Committee recognises that sustainable business is a significant non-financial risk, and this is discussed on page 74. The Remuneration Committee reviews the reward and remuneration for senior executive teams which incorporates non-financial performance measures (for more information see pages 82 to 101).

The Corporate Responsibility Leadership Group meets quarterly to review progress of RBPO and set policy for Kier. Each business has a dedicated Corporate Responsibility Business Partner.

Kier’s specialist topic groups, which work across the business, include:

- Balanced Business Network which works on equality and diversity;
- Social value and impact;
- ‘30 by 30’ which looks at energy and carbon;
- Human rights, which includes modern slavery; and
- Business ethics, responsible for the publication of the Code of Conduct.
Safety, health and wellbeing

Safety is a major priority for Kier, which is why we have set a Vision 2020 target to achieve a zero AIR. We continue to make good progress towards this goal. In 2017, the Group AIR reduced to 130 compared to 211 and 319 in 2016 and 2015 respectively. This is less than half the industry average figure published by the Health and Safety Executive and a 38% improvement year-on-year.

There are many contributory factors for this performance but three particular initiatives in the year have helped drive success:

› We have introduced new safety, health and environment management processes which focuses on the basics.
› A Visible Leadership programme which is designed to encourage directors and senior managers to make regular visits to operational projects and sites. They are an important driver of safety. Against a target of 3,600 visits, we undertook 5,861 visits in the year, a 23% increase on last year.
› Behavioural change programmes developed for each business create a new culture and encourage everyone to take responsibility for safety.

Customer experience

Customer satisfaction scores improved to 91%. This is ahead of the target Kier set for Vision 2020.

We maintain high satisfaction rates because we work to understand customers’ requirements and align delivery to what they want. We also involve customers in the process of setting and agreeing our strategy for sustainable business. This continuing engagement has highlighted the importance of the Social Value Act and the Procurement Reform (Scotland) Act in raising the profile of social impact in public sector procurement. The expectation of public sector clients on suppliers to deliver positive impacts in the communities in which we operate has increased markedly. In the last few years we have been working to understand how the flow of revenue through contracts that Kier is delivering can be focused to deliver the greatest benefit to communities. Examples include targeting more locally-based supply chain partners, local training, apprenticeship programmes and working with organisations dedicated to providing employment opportunities to those who find it difficult to access the world of work.

At Kier we operate a number of work access programmes directly including:
› Nordis: a social enterprise that makes road signs. Based in Northamptonshire, it provides meaningful employment for people with disabilities.
› Making Ground: a work placement programme for ex-offenders. Through this scheme numerous ex-offenders have been offered placements that have subsequently resulted in full-time employment.

We are also exploring how we can provide direct support to our clients through the use or creation of social enterprises, such as S-Skills.

Safety – the five basics

Five basic points that help reduce accidents and boost safety:

1. Induction – for every worker.
2. Risk assessments – for every task.
3. Safe systems of work/method statement – for every medium and high risk task.
4. Point of work risk assessments – the last chance to re-assess.
5. Competence – our license to operate.

S-Skills on Surrey Highways

S-Skills is an innovative partnership between Surrey County Council and Kier. Formed as a social enterprise, S-Skills enables people not in education, employment or training (NEETs), or with special educational needs, to carry out basic highway works in the community. This partnership achieves positive outcomes by:

› Reducing dependency culture within communities.
› Balancing regional skills supply and demand.
› Meeting Surrey County Council’s pledge on apprentices.
› Addressing highway management skills and ageing workforce issues.
› Creating a skilled, work-ready generation to build tomorrow’s infrastructure.

Each year, the S-Skills Social Enterprise will generate a social value of £420,000 through enhanced skills, economic returns and positive outcomes on health and wellbeing for wider society.

2014 2015 2016 2017

<table>
<thead>
<tr>
<th>Accident incidence rate (AIR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
</tr>
<tr>
<td>400</td>
</tr>
<tr>
<td>300</td>
</tr>
<tr>
<td>200</td>
</tr>
<tr>
<td>100</td>
</tr>
<tr>
<td>0</td>
</tr>
<tr>
<td>2014 2015 2016 2017</td>
</tr>
</tbody>
</table>

Kier AIR
Recognising our responsibilities

Our stakeholders have worked with us to identify material issues that help define us as a responsible and sustainable business in the communities where we operate. As well as reporting on these in the preceding pages, there are certain items we are required to disclose as a consequence of the legal framework which we operate within. We cover these areas below.

Greenhouse gas emissions

Kier achieved its 2020 target of a 10% reduction in carbon emissions per £m revenue ahead of plan in 2015. This year we launched ‘30 by 30’, which sets a new target to reduce our energy consumption by 30% by 2030. We project that this will also result in a 39% reduction in greenhouse gas emissions. To deliver this plan, we have identified a number of actions we can take, some of which will rely on greater collaboration with our supply chain partners. For example, we have been working with a number of our partners over the course of the year to identify and bring forward new and efficient solutions for site based plant, accommodation and generators. This drive for greater efficiency supports our plan for improved profitability and a more efficient business.

<table>
<thead>
<tr>
<th>Emission type</th>
<th>2015 CO₂e tonnes</th>
<th>2016 CO₂e tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scope 1: operation of facilities</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Scope 1: combustion</td>
<td>112,651</td>
<td>108,831</td>
</tr>
<tr>
<td>Total Scope 1 emissions</td>
<td>112,651</td>
<td>108,831</td>
</tr>
<tr>
<td>Scope 2: purchased energy</td>
<td>17,189</td>
<td>14,467</td>
</tr>
<tr>
<td>Scope 2 total emissions</td>
<td>17,189</td>
<td>14,467</td>
</tr>
<tr>
<td>Total emissions</td>
<td>129,839</td>
<td>123,298</td>
</tr>
<tr>
<td>Greenhouse gas emissions intensity ratio</td>
<td>36.6 t/£m</td>
<td>31.4 t/£m</td>
</tr>
<tr>
<td>Revenue (£m) – calendar year</td>
<td>3,552</td>
<td>3,928</td>
</tr>
</tbody>
</table>

Our reporting of greenhouse gas emissions is for the calendar year 2016 to mirror our reporting to the Carbon Disclosure Project. Our dataset covers 94% of Kier's operations by revenue, excluding Scope 1 fugitive emissions and joint ventures/joint operations where we are not in financial control. Reporting follows the requirements of the Companies Act 2006 (Strategic Report and Directors Report) Regulations 2013, is in line with ISAE 3410, and uses conversion factors published by DEFRA.

Human rights

During the year, we launched a programme of training and awareness for employees responsible for procurement of construction materials and products. We also undertook business audits against performance measures established in our modern slavery statement last year. No issues were identified on audit and we will expand this approach over time so that, by 2020, we expect 90% of our preferred material suppliers to have been through this audit process. Our confidential whistle-blowing line also allows for any concerns to be raised directly.

Diversity

The future success of Kier depends on our ability to recruit and retain the best talent. We operate in sectors where there is strong competition for skilled workers and which are likely to be disrupted by new technology. A balanced business, which makes the most of the diversity of talent and experience available to us, will ensure we have the agility and resilience to continue to innovate and grow our business. As part of Vision 2020 we set a goal to improve the diversity of our graduates, apprentices and trainees to reflect the mix in the communities in which we operate.

In the last year we have undertaken a number of initiatives including:

- Establishing the Balanced Business Network to champion and promote diversity and inclusion in Kier, with Claudio Veritiero becoming the Board champion.
- LGBTQ+ network launched.
- Demonstrated our commitment to creating a more diverse and inclusive workforce by joining peers from the construction industry at the Pride London and Manchester events supporting #buildingequality.
- Run a regular series of diversity events to promote and encourage networking and awareness of the benefits of more diverse employees.
- Established training on relevant skills such as how to identify and eliminate unconscious bias in recruitment.
- Participated in UK wide research into what drives the career choices made by men and women.
- Launched an enhanced family friendly policy.

<table>
<thead>
<tr>
<th>Diversity</th>
<th>Male – 77%</th>
<th>Female – 23%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All employees</td>
<td>12,425</td>
<td>3,808</td>
</tr>
<tr>
<td>Senior management</td>
<td>272</td>
<td>29</td>
</tr>
<tr>
<td>Directors</td>
<td>9</td>
<td>2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Ethnicity of employees</th>
<th>White – 60%</th>
<th>Not stated – 35%</th>
<th>Black and minority ethnic – 5%</th>
</tr>
</thead>
</table>

1 Data is based on a spot audit at year end, and excludes locally employed overseas and McNicholas data.
Managing risk to protect and grow our business

Effective risk management remains critical to our success. We have continued to review our approach to risk management in 2017, taking into account the need to balance risk and opportunity. Kier manages risk, both ours and our clients’, as a natural part of our business operations.

Our risk management framework is aligned with Vision 2020. A summary of the key elements of the framework is below.

Risk oversight

- **Board**
  - The Board has overall responsibility for Kier-wide risk management and sets the Group’s risk appetite.

- **Risk Management and Audit Committee (RMAC)**
  - The Board has delegated responsibility for the oversight of the Group’s risk management and internal control systems to the RMAC.

- **Senior management**
  - Management within the business are responsible for the management of risk whether financial or non-financial in their respective businesses.

- **Risk Review Committee**
  - The Risk Review Committee reviews risks arising during tenders for new contracts.

- **Investment Committee**
  - The Investment Committee reviews risks relating to investment decisions taken by the Group.

- **Standing orders**
  - Standing orders set out delegated authorities within which the Group, divisions and business units operate.

- **Group-wide committees**
  - Other Group-wide committees ensure that key business risks are managed appropriately.

Risk identification

- **Top down**
  - Board
    - The Board and RMAC have agreed a division of responsibilities with respect to the management of risk. The Board conducts a robust assessment of the principal risks facing the Group, and its risk appetite, and the RMAC oversees the Group’s systems of risk management and internal controls.
  - Executive Committee (ExCo)
    - Risk identification and management is central to the decisions taken by the ExCo.
  - Group risk function
    - Reviews heatmaps and registers on a quarterly basis.

- **Bottom up**
  - Business unit/divisions
    - Risk identification is built into routine processes and supported by an annual risk review which is refreshed regularly within each business unit. Emerging risks are reviewed and added as part of a continuous improvement process. These are also reviewed by divisional risk champions.
  - Group risk function
    - Challenges assumptions and prioritisation, supports business units in aggregating their risks and reviews risk registers and heatmaps on a quarterly basis.

Risk recording and review

- **A bespoke risk portal has been developed and implemented within Kier. Risks are recorded alongside risk mitigations and controls, and a quarterly heatmap is produced for each business unit. The combined risk data for all business units is reviewed quarterly by the Group risk function. Significant risk issues that emerge throughout the year are escalated via the Group risk function to the ExCo and the RMAC.**

- **The RMAC meets quarterly and reviews risk matters and the Internal Audit Plan.**

- **The Head of Risk and Internal Audit briefs RMAC on risk management issues, the principal risks, and the compliance with the elements of the UK Corporate Governance Code relating to risk.**

- **The Internal Audit function provides independent assurance to the RMAC.**
Risk appetite
Balancing risk appetite with our strategic aims
The Board assesses its risk appetite annually. In 2017, the Board undertook a detailed review of its appetite for risk set against each of Kier’s strategic priorities. Risk appetite was mapped against a sliding scale from ‘risk-averse’ to ‘risk-neutral’ to ‘risk-tolerant’ and this informed the development of thresholds to quantify acceptable upper and lower levels of risk for each strategic priority.

Risk framework
Kier’s risk management framework evolves to support the delivery of our strategic aims and ISO 31000. A summary of the framework is shown below:

Mandate and commitment
The Board sets a clear mandate for risk management which is designed to ensure that risk is managed rigorously by the business.

Framework for managing risk
(PLAN)
Kier’s processes identify, analyse, evaluate and treat risks.

Continuous improvement
(ACT)
Kier’s risk processes are regularly reviewed by management.
There is a focus on lessons learned within the business units and divisions, prompting collaboration on risk management across the businesses.

Implementing risk management
(DO)
Risk identification is performed on both a top-down and bottom-up basis and recorded in a bespoke in-house risk portal. This information is distributed in the form of risk registers and risk heatmaps to guide activity and decision-making.

Monitoring and review
(CHECK)
Internal audit provides independent assurance to check that processes, controls and policies are operating effectively. This service is co-sourced to KPMG who undertook 15 internal audits during the last 12 months.
The definitions of probability and impact are as follows:

**Likelihood**
- **Improbable** – the event is not foreseen as likely to occur or may occur in exceptional circumstances
- **Possible** – a relatively infrequent occurrence for the Group
- **Probable** – a relatively frequent occurrence for the Group.

**Impact**
- **Low** – the exposure is well understood with a relatively low cost of mitigation
- **Medium** – risk may be tolerated provided that the benefits are considered to outweigh the costs significantly
- **High** – risk threatens the viability of the Group or there is a reasonable likelihood of danger to people or material brand or reputational damage.

### Key areas of risk focus for 2018

We review our risk management framework and internal controls to ensure they remain effective and support the Group’s continued growth.

The principal areas of focus for 2018 are:

- continued assessment of the principal risks and uncertainties from both a bottom-up and top-down perspective, deepening our analysis to create a unified view of both sets of risks;
- support of business units to embed the use of the risk portal and sharing of best practice across the Group;
- continued development of Kier’s risk culture;
- further development of risk communication processes within business divisions and to the Board; and
- continued appropriate focus on risk throughout all levels of management within the Group.
Principal risks and uncertainties

The following section sets out the Board's assessment of the principal risks and uncertainties (PRUs) that may impact the delivery of our six strategic priorities, their movement during the year and the relevant controls and mitigations in place. The Board considers these to be the most significant risks facing Kier. Not all risks facing our organisation are listed and risks are not listed in any order of priority.

Recognising the impact of our principal risks

At Kier, we know that risk is an inherent part of doing business, and as such our approach to risk management promotes a deep understanding and consideration of risk and places it at the centre of our decision-making processes.

1. Health and safety

Major health and safety incident

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Group’s activities are inherently complex and potentially hazardous and require the continuous monitoring and management of health, safety and environmental risks. The Board has assessed that this risk remains high but unchanged from last year. Failure to meet safety standards and/or ineffective management of safety requirements could result in the following:</td>
<td>› Updated Safety, Health and Environment (SHE) management system aligned to the needs of the operational businesses under a framework of Group governance.</td>
</tr>
<tr>
<td>› injury/death to employees, members of the public or third parties;</td>
<td>› Behavioural change programme focusing on operational safety.</td>
</tr>
<tr>
<td>› reduced ability to bid for and win work;</td>
<td>› Robust major incident response protocols.</td>
</tr>
<tr>
<td>› reputational damage;</td>
<td>› Visible leadership programme designed to promote a ‘safety-first’ culture.</td>
</tr>
<tr>
<td>› financial penalties arising from fines, claims, legal action, project delays; and</td>
<td>› Revised accident investigation protocols to ensure robust investigation and implementation of lessons learnt.</td>
</tr>
<tr>
<td>› failure to meet investor expectations.</td>
<td></td>
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</tbody>
</table>
2. Sustainability

Breadth of sustainability requirements

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>With the increasing importance of sustainability and social value in clients’ evaluation of contract awards, and the emergence of greater stakeholder awareness, progressive legislation, and enforcement activity, this risk is included as a new PRU. If the Group were unable to meet its sustainability requirements, the following risks may occur:</td>
<td><strong>›</strong> The Group’s commitment to sustainability is articulated within a strategy for a sustainable business, Responsible Business, Positive Outcomes (RBPO). <strong>›</strong> The Group operates a management structure including Board committees, and a Corporate Responsibility Leadership Group (CRLG) which meets quarterly. Between them they review the progress with identified, and emerging, issues across the areas covered by our strategy for a sustainable business. <strong>›</strong> Membership of the CRLG is drawn from our Group services functions, together with representatives from the operating businesses. It is responsible for assessing sustainability risk and setting appropriate policies and direction for Kier. <strong>›</strong> The Group has recognised that delivering strong performance across the non-financial focus areas covered by RBPO helps to create value for our business, our investors, our clients and wider society. For example, improving safety and wellbeing leads to less lost time through injury or illness; improved environmental performance can reduce waste of energy and materials, leading to cost savings; and choosing the right subcontractors and supplier partners can lead to an economic boost for the community in which we are operating. <strong>›</strong> The Group delivers business-wide training programmes to ensure its employees are competent and qualified. We operate a programme of audits to review our contracts and measure performance against expectations, assessing and reporting on recommendations for improvement.</td>
</tr>
</tbody>
</table>

| Non-compliance with legislation; | **›** The Group’s Investment Committee, chaired by the Group Financial Controller, is responsible for approving capital investment and optimising the allocation of capital. **›** Cash forecasting and working capital management remain key performance indicators for the business, with their ability to generate positive cash flow demonstrated in the year. **›** The core borrowing facility was recently renegotiated, extending tenure and liquidity. The Group has access to committed funding that substantially exceeds both peak borrowing and projected funding requirements over the next three years. The average tenure of committed funding exceeds four years. **›** Availability of bonding capacity is essential to the Group’s ability to win work. Kier has strong, long-term relationships with the providers of this service and has a dedicated in-house team to monitor headroom and advise on bond terms and conditions. **›** The Property division uses a number of joint ventures to manage risk and enhance returns. Joint venture partners are carefully selected to mitigate operational risk within projects. By entering into joint ventures, the Group can ensure that the Property division is not over-exposed to any one sector, geographical location or individual development. |
| Bid exclusion; | **›** failure of business or one stream of the business; **›** smaller gains or margins; **›** failure to achieve profit expectations; **›** loss of investor confidence; and **›** reduced cash generation due to reduced volume growth. |
| Reputational damage; | |
| Failure to meet customer expectations; | |
| Significant financial penalties/loss of contracts; and | |
| Significant failure to meet investor expectations. | |

3. Funding

Availability of funding

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Group has a variety of funding needs met by external sources. We have clear metrics to measure volatility and sensitivity in the key indicators of funding risk and have recently undertaken a review which has strengthened our ability to manage this risk. The Board assesses this PRU as unchanged from last year. If this funding were not available or curtailed there is a risk that we could experience:</td>
<td><strong>›</strong> The Group’s Investment Committee, chaired by the Group Financial Controller, is responsible for approving capital investment and optimising the allocation of capital. <strong>›</strong> Cash forecasting and working capital management remain key performance indicators for the business, with their ability to generate positive cash flow demonstrated in the year. <strong>›</strong> The core borrowing facility was recently renegotiated, extending tenure and liquidity. The Group has access to committed funding that substantially exceeds both peak borrowing and projected funding requirements over the next three years. The average tenure of committed funding exceeds four years. <strong>›</strong> Availability of bonding capacity is essential to the Group’s ability to win work. Kier has strong, long-term relationships with the providers of this service and has a dedicated in-house team to monitor headroom and advise on bond terms and conditions. <strong>›</strong> The Property division uses a number of joint ventures to manage risk and enhance returns. Joint venture partners are carefully selected to mitigate operational risk within projects. By entering into joint ventures, the Group can ensure that the Property division is not over-exposed to any one sector, geographical location or individual development.</td>
</tr>
<tr>
<td>Failure of business or one stream of the business;</td>
<td></td>
</tr>
<tr>
<td>Smaller gains or margins;</td>
<td></td>
</tr>
<tr>
<td>Failure to achieve profit expectations;</td>
<td></td>
</tr>
<tr>
<td>Loss of investor confidence; and</td>
<td></td>
</tr>
<tr>
<td>Reduced cash generation due to reduced volume growth.</td>
<td></td>
</tr>
</tbody>
</table>
4. Market and sector performance

**Market downturn impacts customer expenditure**

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Group’s strategy depends on the economic performance of the UK, in particular, and the markets and sectors in which it operates. Kier has a breadth of capabilities and operates across a number of diverse market sectors. The Board has extended this PRU (previously ‘the market’) to reflect the importance of our sector decision-making and performance, as well as the general performance of the economies in which we operate. Reduced economic activity and expenditure in public, regulated and private sectors would likely result in lower growth or lower revenue for the Group. Further, investment allocation across the market sectors in which the Group operates is of clear importance; if the Group were to invest too heavily in the wrong sector, the following risks would occur:</td>
<td>The Group regularly evaluates future market performance including the impact of macro-economic factors (e.g. population growth, austerity) and the associated market risk of specific events (e.g. Brexit) together with its strategy in those markets. The Group’s strategy is aligned to three core market segments (buildings, infrastructure and housing) which are underpinned by solid long-term fundamentals and where the Group is able to establish a leading market position. The Group’s operating structure is largely aligned to these three segments. The Group regularly reviews its business portfolio, which has resulted in exit from market sectors and disposals (e.g. Caribbean, Mouchel Consulting and Biogen). The Group carries out monthly and quarterly reviews of its secured workload and prospective pipeline, and forecasts its overhead levels as a percentage of future work in order to maintain an appropriate ratio of overhead costs to revenue. The Group has well-established sector sales capability in key areas, and during the year invested in a new customer relationship management system to improve pipeline visibility.</td>
</tr>
<tr>
<td>failure of business or one stream of the business;</td>
<td></td>
</tr>
<tr>
<td>reputational impact of inappropriate selections; and</td>
<td></td>
</tr>
<tr>
<td>failure to meet financial expectations.</td>
<td></td>
</tr>
</tbody>
</table>

5. Operating model

**Operating model inefficiency**

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>To build and sustain long-term confidence we must maintain and evolve our operating model to maximise growth and minimise risk. The Board has assessed this as a new PRU. Failure to maintain operating model efficiency could result in the following risks:</td>
<td>We maintain a disciplined focus on honing the portfolio by divesting non-core businesses and making acquisitions in line with strategy. The Group measures its component businesses against a series of balanced score-cards throughout the year. As a key part of our control processes, we challenge our business units’ performance and amend plans on a quarterly basis to ensure that we are on track to meet investor expectations. We constantly strive to anticipate changes within our business environment and customer requirements as well as implementing efficiencies where appropriate. The recent enterprise resource planning (ERP) implementation and opening of our finance shared services centre are prime examples of this. We have made ongoing investment in systems to improve our efficiency and management information for example, strengthening back-office systems through the roll-out of Oracle ERP and shared services. These improvements also enable integrated trading/ cross-selling and scalability of front-line systems in services businesses, creating operational efficiencies and enhancing competitiveness in certain sectors. We have implemented a programme of enhanced customer engagement to work as closely as possible with our customers, particularly where the business environment is changing, so we can continue to support them as their priorities evolve.</td>
</tr>
<tr>
<td>failure of business or one stream of the business;</td>
<td></td>
</tr>
<tr>
<td>failure to deliver required growth and profitability;</td>
<td></td>
</tr>
<tr>
<td>failure to remain competitive; and</td>
<td></td>
</tr>
<tr>
<td>failure to meet investor expectations.</td>
<td></td>
</tr>
</tbody>
</table>
## 6. Contract management

**Ineffective contract management**

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kier recognises that effective contract management is at the heart of its business model and is critical to ongoing success and growth. The Board has assessed that given the potential impact of this risk and current external factors, this risk has risen in significance since last year and remains an important focus for the Group. The Group has a number of large and complex contracts in play at any given time. Dependent on the nature, location and duration of the work and the legal framework of the contract, there is a risk that ineffective contract management and lack of ownership could result in:</td>
<td>• The Group maintains a strong focus on longer-term service contracts. Potential risks are mitigated, controlled and managed through the Group’s operating structure, procedures and standing orders. Enhanced emphasis and focus on pre-contract controls has improved the quality of the Group’s portfolio of contracts.</td>
</tr>
<tr>
<td>• failure of the business or one stream of the business;</td>
<td>• Monthly operational and financial contract reviews are held at both business unit and business stream levels. These reviews are supplemented by a formal quarterly review process, which operates across all divisions of the Group and is attended by ExCo members.</td>
</tr>
<tr>
<td>• financial impact of failure to deliver on contracts;</td>
<td>• The operational and commercial functions manage subcontractor performance and relationships across all contracts.</td>
</tr>
<tr>
<td>• reputational damage;</td>
<td>• In further mitigation of this risk, the Group’s commercial training programme for all front line staff has progressed positively. This programme is designed to ensure a consistent approach to the management of contract risks across the Group. There has also been a focus on upgrading key financial controls across the Group. These improvements have had a positive impact on identifying potentially under-performing contracts.</td>
</tr>
<tr>
<td>• subcontractor performance impact;</td>
<td></td>
</tr>
<tr>
<td>• wastage of resources; and</td>
<td></td>
</tr>
<tr>
<td>• poor management information, reporting, contract data and transparency.</td>
<td></td>
</tr>
</tbody>
</table>

## 7. Customers

**Loss of a key customer relationship**

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kier recognises the need to engage effectively with customers and strives to deliver a tailored service that exceeds expectations. Given the importance of customer satisfaction, the Board has identified this as a new PRU. If we fail to deliver a differentiated customer experience which focuses on proactive relationship management, the following could occur:</td>
<td>• Customer satisfaction surveys are undertaken alongside independent customer surveys designed to better understand clients needs and expectations.</td>
</tr>
<tr>
<td>• failure of the business or one stream of the business;</td>
<td>• Each business unit/stream has a dedicated business development team which participates in a quarterly review of clients across the UK through eight regional client forums.</td>
</tr>
<tr>
<td>• reputational damage; and</td>
<td>• We have developed key client plans and relationship mapping through the allocation of key account managers to each key client.</td>
</tr>
<tr>
<td>• loss of a key customer or decline in customer loyalty.</td>
<td>• Regular reviews are scheduled at management meetings covering customer relations and the future pipeline of opportunities supported by the Group’s new CRM system. Senior leaders across the Group support key client relationships through regular 1:1 meetings.</td>
</tr>
</tbody>
</table>
8. People
Availability and retention of the right people

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our people remain a key pillar of our business.</td>
<td>› Focus on reduction of voluntary turnover of employees, in particular new hire turnover, through better hiring for fit, improved induction and on-boarding, and employee engagement initiatives.</td>
</tr>
<tr>
<td>Ensuring the right people are in the right roles is critical to our future success and growth. The Board has assessed that the level of risk in this area is the same as last year. We need to attract and retain the right talent to enable achievement of our strategic aims. Failure to do this risks our delivery and growth as follows:</td>
<td>› Launch of market-benchmarked reward and benefits offer.</td>
</tr>
<tr>
<td>› failure to meet a specific business need or contract requirement;</td>
<td>› Strategic workforce plan implemented to provide insight on forecast skills needs and headcount and insight on skills and retention hot spots or systemic issues to target.</td>
</tr>
<tr>
<td>› reputation damage, both corporate brand and employment brand;</td>
<td>› Employer brand embedded in talent attraction and reflected in internal employer value offer.</td>
</tr>
<tr>
<td>› loss of project specialisms;</td>
<td>› Talent fast-track programme in place to retain and progress key talent at all levels.</td>
</tr>
<tr>
<td>› over-reliance on key staff; and</td>
<td>› Balanced Business strategy agreed with the ExCo to drive inclusion and diversity.</td>
</tr>
<tr>
<td>› loss of key skills.</td>
<td>› Targeted action taken to improve the diversity mix and inclusive work climate (including internal target-setting).</td>
</tr>
</tbody>
</table>

9. Innovation
Insufficient innovation to maintain market position

<table>
<thead>
<tr>
<th>Description</th>
<th>Key mitigations/controls</th>
</tr>
</thead>
<tbody>
<tr>
<td>We operate in an increasingly dynamic and changing environment. To counter the risks associated with this and, most importantly, to exploit the opportunities it presents, we must embrace innovation and capitalise on technology advancements to ensure we maintain our market position. Given the depth and pace of change in this arena this risk/opportunity has increased in focus and importance from last year and is now listed as a PRU. Failure to manage this risk could result in:</td>
<td>› The delivery of the Group’s services already incorporates innovation and technology at a number of levels, whether through the built environment it is delivering (e.g. smart motorways, energy-efficient buildings) or the way in which it delivers its services (e.g. BIM, digital technology, predictive data, new construction methods).</td>
</tr>
<tr>
<td>› loss of new and current business to competitors;</td>
<td>› Given the heightened importance of this area, the Group has revised one of its strategic objectives in the year (Embracing innovation and technology across our business) and launched its #forwardthinking@kier plan. This has included the appointment of a Group Innovation Director and the launch of a Group-wide Innovation Forum. As part of its plans to further promote innovation and technology, the Group will:</td>
</tr>
<tr>
<td>› new market entrants lead the way on innovation to our detriment;</td>
<td>› ensure that employees in every business have access to online innovation and idea-sharing platforms;</td>
</tr>
<tr>
<td>› loss of staff due to lack of innovation or failure to act on ideas;</td>
<td>› establish a clear digital strategy supported by an information management strategy and digital life skills programme;</td>
</tr>
<tr>
<td>› innovation costs not being managed effectively; and</td>
<td>› launch a £1m pa seed fund (the Kier Accelerator) to encourage new ideas/ investment; Increase the rotation of candidates across its graduate/early career programme to further increase vibrancy of thinking and seeding of ideas;</td>
</tr>
<tr>
<td>› negative internal and external publicity.</td>
<td>› increased external marketing activity to position our existing innovation; and</td>
</tr>
<tr>
<td></td>
<td>› align leadership and development programmes to include a clear focus on innovation and technology.</td>
</tr>
</tbody>
</table>

Additional macro-economic risks

Brexit
The UK’s departure from the EU (‘Brexit’), will impact Kier in a number of ways. Although these risks are yet to be fully understood and quantified, we are mindful of the many areas of potential risk and uncertainty, including issues around the free movement of people, delays in major infrastructure investment and trade restrictions.

We are actively monitoring the UK Government’s position on the various matters for negotiation and the potential impact these may have on Kier, and will act accordingly through various working parties and task forces. In last year’s Annual Report, we referred to the risk of a significant decline in the property market following the EU referendum result. Instead, greater volatility materialised in this market providing a number of opportunities post the Brexit vote for our Property division. Our largely non-speculative approach to property investment provides mitigation against market volatility. We will continue to monitor changes in the property market and respond accordingly.
Strategic Report
Divisional review

Property

The division provides property development and financing and operates across the UK.

- Consistent performance delivering good returns
- 23% ROCE on increasing average capital of £113m
- Development pipeline of more than £1.4bn providing ten-year visibility

Property revenue\(^1\) was £182m (2016: £169m), generating an underlying operating profit\(^2\) of £25.8m (2016: £21.4m), reflecting the usual second half timing of transactions. This good result was achieved with average capital invested of £113m, peaking at £145m, through continued support of co-investors and funders and utilising the Group’s cash flow.

The division, with over 80% of its activity taking place outside London and a focus on modest value schemes, achieved a ROCE of 23%, well ahead of our 15% target. It continues to have a healthy development pipeline of opportunities in excess of £1.4bn, providing 10 years of development scheme visibility.

Immediately after the Brexit vote, £60m was invested in new developments, taking advantage of market opportunities during the first quarter. This investment underpinned an average capital\(^3\) employed in the 2017 financial year of £113m. Twenty development schemes were sold during the year. The division also continues to offer its specialist skills as part of a wider Group offer to many of our clients who are seeking to maximise the return from their property assets through estate rationalisation.

The Property division has a diversified national portfolio of multi-sector, high-quality projects. In the industrial sector, following the launch in 2017 of the Logistics City brand, the first successful disposals were achieved with the Logistics City Thurrock scheme which was sold in May 2017 following pre-lets. Logistics City Frimley was forward funded and sold in June 2017. Occupier interest has remained robust and lettings were progressed within our Trade City portfolio, with Thurrock 55% let or under offer, Oxford over 46% let or under offer and Winsford 100% let or under offer, with future opportunities in Basingstoke, Reading and Andover secured. Construction of the 72,000 sq ft Trade City Watford was completed and lettings are progressing well with 47% either secured or under offer to date.

In the office development sector, the 100,000 sq ft office in Sovereign Square, Leeds, built by the Construction division, was completed in October 2016 having been pre-let and forward sold. Speculative investment in the London market is very limited, with the development of the 60,000 sq ft office in Hammersmith, in joint venture with Investec, completed in March 2017. In London, 58 Victoria Embankment, the 46,500 sq ft office development in which Kier held a 16% equity stake, was completed in October 2016 having been presold to a charity. During the year the 42,000 sq ft office in Foley Street, London was forward funded, and sold with construction being undertaken by the Construction division.

Following the Brexit referendum, the business took advantage of market opportunities and strengthened its future pipeline with the acquisition of six office schemes in Basingstoke, Glasgow, Leeds and Newcastle and two developments in Manchester. All of these schemes are in key city centre locations and either have existing tenants or present good regional opportunities in this market sector. One of the office developments in central Manchester was forward sold in November 2016 once further tenants had been secured. In September 2017, the office development in Newcastle was 50% sold of after securing further income and increasing value.

Financial information in this table relates to continuing operations

\(^1\) Group and share of joint ventures.
\(^2\) Stated before non-underlying items. See notes 2 and 4 to the consolidated financial statements.
\(^3\) Restated to exclude the results of Biogen following its disposal in the year.
\(^4\) Equates to average net debt.
Making a difference

16,335
person days of local employment utilised in the delivery of the Watford Riverwell project

88 days
of skills training provided on the Riverwell project

Property outlook

As local authorities continue to face fiscal challenges, the division is seeing increased local authority client interest in the division’s property investment and development capabilities. The Property division is a top three trader developer in the UK, and will undertake further regional expansion this year into Birmingham and the West Midlands. This market position, supported by ongoing investor interest, continues to drive good rental yields and the regional property market remains robust. With a development pipeline of £1.4bn, providing 10 years of scheme visibility, coupled with the Group’s strong cash flow, it is anticipated that Group capital investment will peak at £175m in the year ahead and reach an average of £200m in 2020 and that ROCE will exceed 15%.
Residential

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

- Revenue up 6% to £376m
- Cross Keys Homes joint venture supporting 11% ROCE
- Completed 2,200 units, up 3% in year with two thirds of units mixed tenure
- On track to deliver over 2,300 units in FY18
- Secured place on all five regional panels of the HCA four-year £8bn DPP3 framework

The Residential division’s activities are increasingly focused on mixed tenure development, with two-thirds of its activity working with local authorities, housing associations and other clients. All of the division’s activity is outside London. The regional profile of the business provides a stable environment for mixed tenure affordable house building with demand exceeding supply.

Following the sale of the land to the Cross Keys Homes joint venture on 23 March 2017, revenues\(^1\) were up 6% to £376m (2016: £353m) and on a like-for-like basis revenues were up by 5%, a strong performance. The total number of unit completions increased to 2,200, up 3%, generating an increase in operating margin to 6.1% (2016: 5.8%). Underlying operating profit\(^2\) of £22.8m (2016: £20.3m), up 12%, was achieved as our mixed tenure activity matures as capital is recycled to service growth and as the private housing business builds on new land which replaces the older, more expensive land. Following completion of the Cross Keys Homes joint venture on 23 March 2017, the business received a capital sum of £64m which improved the division’s ROCE to 11% (2016: 9%). The rebalancing of the legacy Kier land bank continues.

Mixed tenure

With continuing budgetary challenges in local authorities, yet increased demand for housing, the business is seeing high levels of interest in funding solutions and joint ventures. Revenue in the mixed tenure business increased 8% to £202m with an average invested capital of £39m. The mixed tenure business achieved approximately 1,450 completions (2016: 1,400) in the year.

The business continues to look at opportunities nationally and has successfully worked with local authorities to optimise the value of their land assets. It has extended its geographical reach into new areas such as south Wales and increased its focus on the south-west. The launch of joint ventures such as New Communities Partnership and Northern Ventures in 2016 has generated significant interest and discussion with local authority partners as they seek new ways to extract value from their land assets. Northern Ventures activity is increasing with three new schemes in Stokesley, Easingwold and Driffield, delivering around 700 units with Together Housing Association.

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\(^1\) Group and share of joint ventures.
\(^2\) Stated before non-underlying items. See notes 2 and 4 to the consolidated financial statements.
\(^3\) Equates to average net debt.

Balaam Wood, Birmingham provides 400 new homes of which 128 are affordable homes for Birmingham City Council
At the end of July 2017, Kier Living successfully secured a place on all five of the regional panels of the Homes and Communities Agency’s (HCA) new £8bn Delivery Partner Panel 3 (DPP3) which provides public sector organisations with a quick and efficient way to build new homes. The new DPP3 framework will run for four years and has doubled in value as the HCA takes responsibility for an increasing number of mixed-use and multi-tenure schemes and welcomes more client bodies as users of its framework. Kier Living is one of a small number of house builders that has been successful on all five of the regional panels.

**Private**

The private housing market remains robust with the sale of new homes continuing to outperform the second hand market. Consumer demand and confidence remain good, supported by Help to Buy which continues to underpin new home sales and accounts for approximately half of all Kier private sales. Average sales prices were £240k and the business is currently approximately 60% forward sold for FY18.

On 23 March 2017, the Cross Keys Homes joint venture was announced. This joint venture is successfully buying schemes, accelerating our strategy to recycle the capital invested in the Kier private land bank to drive the future growth of the Group and improve overall ROCE. There were 748 private sale completions (2016: 750) in the year. The business continues to rationalise its land bank and reinvest in mixed tenure opportunities or return capital to the Group. The land bank mix continues to improve with approximately 40% of completions on land bought before 2008 and the remainder on newer land. The land bank has reduced to 2,794 speculative units (2016: 3,279) and sales were completed at a rate of 0.7 units per trading site per week.

**Residential outlook**

With a continued imbalance in the UK supply and demand of housing, good availability of mortgages and low interest rates, the division is well positioned to pursue growth, particularly through the demand for mixed tenure housing. We continue to execute our strategy to grow the mixed tenure business whilst maintaining the scale of the private business at 700 – 800 units per annum. Through the use of joint ventures, the division continues to offer clients capital efficient solutions which are of increasing interest. The division is also focused on extending its presence into the M3/M4 corridor enabling it to work more closely with the housing maintenance business, providing combined services to private and affordable housing providers.

We will continue to grow our mixed tenure business and work towards our Vision 2020 goal of 15% ROCE.
The Construction division comprises UK building, UK infrastructure and international businesses which undertake a range of building and infrastructure projects.

- Revenue of more than £2bn
- Operating margin of 2.0%
- Contract awards in the year of more than £3.0bn, record level
- Order book of £4.2bn

The Construction division delivered a strong year with a record £3bn of new contracts awarded in the year. Revenue\(^1\) was up 6% to £2,019m (2016: £1,901m) with an underlying operating profit\(^2\) increase of 2% to £39.8m (2016: £38.9m). Underlying operating margins\(^2\) were maintained around 2.0% (2016: 2.0%) and the working capital performance was good. The current order book of £4.2bn for secured and probable work, excluding framework awards, represents more than 90% of forecast revenue for the 2018 financial year, on increasing volumes.

**UK building**

The building market was buoyant during the year assisted by the re-emergence of a number of major public sector projects. Our success on frameworks and our selective approach to new work, focusing on risk management and client relationships, has seen the business deliver another strong and consistent performance. The division benefited from continued demand particularly in the biotech, science and student accommodation markets. Wales and the south-east and, specifically the Cambridge market, have been particularly encouraging.

In the private health sector, we secured one of four positions on the £500m Private Investment Construction (PIC) healthcare framework and were appointed preferred trader for £75m of new private hospital developments.

With greater budgetary challenges, there is an increasing trend for public sector clients to procure capital building works through frameworks. Positions on the following frameworks were secured in the second half:

- a position on the £6bn LHC Schools and Community Buildings frameworks;
- a place on the £1bn+ Notting Hill Housing framework; and
- a place on all five lots of the £700m Cambridge County Council framework.

In addition Kier is shortlisted for inclusion on the following frameworks:

- £8bn Education and Skills Funding Agency Construction framework; and
- the national and regional integrated healthcare supply chain NHS Building for Wales National and Regional frameworks.

Kier has maintained and grown its presence in the health and education sectors. In the health sector, our position on the Department of Health ProCure21+ and ProCure22 frameworks has resulted in the award of £109m of work in the year. In the education sector, over £200m worth of projects have been awarded or are at preferred bidder status. Kier has a turnover of over £600m in the education sector and expects further growth in the tertiary education sector.

### Revenue\(^1\)

£2,019m  
(2016: £1,901m)

### Operating profit\(^2\)

£39.8m  
(2016: £38.9m)

### Operating margin\(^2\)

2.0%  
(2016: 2.0%)

### Statutory operating loss

£(10.1)m  
(2016: £(3.2)m)

### Order book

£4.2bn  
(2016: £3.2bn)

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Financial information in this table relates to continuing operations.

1. Group and share of joint ventures.
2. Stated before non-underlying items. See notes 2 and 4 to the consolidated financial statements.
3. Restated to present the results of Mouchel Consulting as discontinued following its sale in the year, and to restate the results of UK Mining into continuing operations.
The David Ross Sports complex, one of the UK’s leading sports facilities, required the comprehensive redevelopment and demolition of the existing sports centre to create a modern, customer built facility for the University of Nottingham enabling the University to cater for 70 sports clubs.

During the year, over 147 projects, with a combined value of £142m, were secured through the Scape National Minor Works framework where Kier is the sole provider for projects up to £4m throughout the UK. Kier is also one of six framework partners currently bidding for the first phase of the construction of three prisons worth c£400m.

Major contract awards in the year also included the £57m University of Sheffield award and the £53m Hoxton Hotel in London.

Infrastructure
Kier continued to work on civil engineering projects across a broad range of sectors including highways, rail, ports and coastal, aviation, energy, water and utilities and nuclear, delivering a steady revenue performance. The division is seeing a particular increase in transport opportunities with the HS2 joint venture award worth a combined £1.5bn, which will deliver revenue from 2018, and three new Smart motorway projects covering design and survey work on the M20 and M23 and an additional project on the M6 as part of the Collaborative Delivery framework for Highways England. Other new awards in the year included a £38m contract on the A13.

Work is ongoing at Hinkley Point C and the Farringdon Crossrail project this financial year and the Mersey Gateway project, despite some challenges, is expected to achieve the initial completion milestone with the toll road crossing opening shortly.

Given the higher risk profile of some infrastructure contracts, the business is focused on improving margins by winning high quality work with repeat key clients, whilst continuing to focus on risk management, contract terms and conditions and cash performance.

International
In our international construction business, focus is on the continued delivery and development of the business in the Middle East. Despite the sustained low oil price, UK Export Finance (UKEF) continues to attract clients and we are experiencing a steady number of schemes coming to market. During the year, three new contracts totalling around £400m were secured using UKEF including two staff accommodation projects and the new, multi-purpose, 20,000-seat Dubai Arena.

The process to settle the final accounts on the two MTR contracts in Hong Kong has been agreed and we expect the practical completion of the Caribbean project in the next few weeks. The closure of the Caribbean and Hong Kong businesses has resulted in non-underlying charges of £86m.

In addition, the sale of Mouchel Consulting in October 2016 generated a profit on sale of £40m in the 2017 financial year.

Construction outlook
The Construction division continues to perform well. With its established framework positions and selective approach, it is able to take advantage of a broad range of public and private sector opportunities. Our strength in the education and health markets positions us for growth in these markets, particularly the tertiary education market.

The division’s short-term future performance is underpinned by the UK building business while the infrastructure business provides good medium-term prospects. Significant framework success provides access to a £14bn addressable market. The Middle East business provides some diversity to the cycle of the UK economy.

The division has a well balanced workload, split equally between private and public sector clients. The performance of the three businesses, particularly UK building, have pushed the revenue of the overall division above £2bn this year, and more importantly, have delivered a good 2% operating margin, keeping the division on track for its Vision 2020 target. With an order book of £4.2bn, the division has more than 90% of forecast revenue secured for FY18.
Services

The Services division comprises Infrastructure services (highways and utilities), Property services (housing, facilities management and related services) and environmental services.

- Revenue growth of 2% to £1.7bn
- Strong operating margin of 5.2%
- Significantly increased activity with Highways England in the second-half
- Order book of £4.7bn with additional potential extensions of more than £2.5bn
- Post year end; acquisition of McNicholas creating a top three player in the utilities sector

Services revenue was up 2% to £1.7bn (2016: £1.7bn), reflecting the increased expenditure by Highways England in the second half. Underlying operating profit was £87.0m (2016: £86.1m), up 1%. An underlying operating margin of 5.2% reflects the stable and consistent performance of the business.

The order book at 30 June 2017 of £4.7bn (2016: £5.3bn) reflects the run-off of long-term contracts, albeit the bidding pipeline remains good, particularly in highways. More than 90% of targeted revenue for 2018 is secured; moreover, the order book does not include potential contract extensions, which, if included, would add more than £2.5bn, and provide visibility of workload beyond 2020.

Approximately 60% of the division’s capabilities relate to the provision of infrastructure services in the highways and utilities sectors. Together with the Group’s capabilities in construction, Kier is one of the UK’s leading infrastructure businesses with an annual revenue of approximately £1.5bn.

Infrastructure services – Highways maintenance

The Group maintained its position as the UK’s leading provider of strategic maintenance and management. Revenues increased significantly in the second half, reflecting Highways England’s phasing of works. Moving forward, Highways England is focused on reducing the historic peaks and troughs of spending, providing greater predictability across the year. We expect the current level of spending to continue with funding for Road Investment Strategy 1 remaining positive. During the year, the following Highways England contracts were mobilised:

- a 15-year, £140m repair and maintenance contract for Area 13 covering Cumbria;
- a two-year, £50m maintenance services contract for Areas 6 and 8 covering East Anglia and the East of England; and
- a five-year, £40m design service contract for Areas 1 and 2.

The local authority market remains active albeit with budget pressures, which is resulting in new opportunities and clients looking at new ways to deliver services. The devolution of funding and decision-making, both locally and regionally, is now starting to gather pace with the establishment of Regional Transport Bodies, mayoral authorities and increased collaboration between authorities. New local authority awards mobilised in the period were;

- a one-year, £40m extension to the Lincolnshire local authority contract;
- a two-year, £27m extension to the Harrow Highways contract; and
- a five-year, £270m extension to the Suffolk Highways contract.

In the local authority market, we have visibility of the order book beyond 2020 and there is a steady pipeline of projects that provide good opportunity for growth.

In Australia, continued population growth is resulting in increased demand for road projects including Smart Motorway projects. Beyond the Group’s highways joint venture in Australia, the highways design centre in Sydney continues to be awarded highways design contracts by third parties, reflecting their increased profile in this market.

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1 Group and share of joint ventures.
2 Stated before non-underlying items. See notes 2 and 4 to the consolidated financial statements.
Making a difference

Over 40

community engagement events undertaken by Workplace Services providing training and support for 2,000 youngsters during 2017

800,000

Over 800,000 hours worked without a safety incident on our north west Highways England project

Infrastructure services outlook

We expect that Highways England maintenance activity levels will continue as part of the strategic highways funding commitment to 2020 through the current RIS. We continue to work with Highways England as they look at their future operating model and look forward to participating in the Routes to Market and £6bn framework procurement initiatives which will provide significant future opportunity for the Group.

The utilities market presents significant opportunity. With the UK population growth expected to increase, the demand for services is increasing across a broad range of markets including water, energy and telecoms. The acquisition of McNicholas extends the Group’s presence in this marketplace, increasing our capabilities as well as giving increased sector and geographic presence.

Infrastructure services – Utilities

The utilities business focuses on four sectors: water, power, gas and telecoms. In the water sector, new contracts totalling £43m were awarded in the year, including a two-year Severn Trent Water AMS extension.

The business continues to invest in alliances, enabling our teams to work more closely with our clients on improving customer delivery.

Clients in the water sector are already preparing for the AMP7 bidding cycle which takes place in 2020. Yorkshire Water, Severn Trent Water and Welsh Water are all coming to market early and preliminary discussions are ongoing with these clients. It is anticipated that the OfWat regulatory framework for AMP7 will be more challenging than AMP6, with more stretching targets and a focus on resilience, customer service, affordability and innovation.

In the power market, new contracts totalling £53m were awarded by SGN. With the completion of the National Grid Gas Distribution separation and the growing demand for power and gas, other opportunities will arise in this market.

On 12 July 2017 we acquired McNicholas, a leading player in the multi-utilities market, making Kier a top three player in the utilities sector. McNicholas is an established UK engineering services provider in the telecommunications, gas, power, water, renewable energy and rail sectors and has a client base which includes Virgin Media, Network Rail and UK Power Networks. The acquisition builds on Kier’s strategy to accelerate growth and hold leading positions in its chosen markets.
Property services – Housing maintenance
The sector continues to undergo significant change, with social landlords challenged by budget reductions and the recently introduced Universal Credit arrangements providing impetus to review how housing associations manage their portfolios.
With the anticipated merger of housing associations, Kier is one of a select few service providers with the capacity to deliver large contracts and the end-to-end solution clients are seeking.
During the year and since year end, a number of contracts have been awarded including the five-year £100m Powys joint award with the Workplace Services business, and a range of planned maintenance contracts with Sheffield City Council.

Property services – Workplace Services
Workplace Services has established itself as a provider of end-to-end workplace solutions, spanning hard facilities management, soft facilities management, design and asset management and wider business services. The business has continued to grow in both the public and private sectors, particularly in the arts and heritage sectors.

New awards in the period totalling c£40m included:
- a two-year contract with the Royal Berkshire Fire and Rescue Service providing hard FM;
- estates transformation design work with MOPAC;
- a three-year hard FM contract with NHS Business Services Authority; and
- a one-year total FM contract with Sensor City Liverpool, part of the John Moores University complex.

Successful mobilisations took place on the Powys joint award involving Housing Maintenance. In addition, following the award of the Capital City College Group contract earlier this year, an extension is under discussion for a further five City and City and Islington college sites with other additional opportunities ongoing with the London Borough of Camden and Careers Wales.

Kier has also successfully secured places on a number of frameworks including the two-year £2.8bn Crown Commercial Services Project Management and Full Design Team Services frameworks, available to the whole of the public sector, for the provision of multi-disciplinary professional consultancy services.
Property Services outlook
With cost being a major driver for clients, our Property Services teams are working closely with them to transform their data collection and interpretation of that data to deliver appropriate solutions. Investment in our front-of-house systems has enabled our teams to interact seamlessly with our clients’ systems and we continue to look at smarter ways of working together. The introduction of universal credit will give the Housing Maintenance business greater opportunities as landlords seek new ways of managing their portfolios.

Following the Grenfell Tower disaster, there has been a shift in spending priorities by social landlords with the reallocation of funds into fire risk assessment and prevention. The Property Services business are involved in ongoing compliance and health and safety to support a number of local authorities as they undertake assessments of their property portfolios.

Environmental Services
The operational performance of the Environmental Services business remains challenging. In the year, a £11.1m exceptional charge was taken for the East Sussex waste contract which was terminated, and for the early termination of another waste contract in 2019, for which terms have been agreed, further reducing the Group’s exposure to recyclate pricing.

Services outlook
The Services division, which accounts for approximately 50% of the Group’s profits, is performing well. It is focused on providing essential, day-to-day routine services to clients and communities. Against a backdrop of financial pressures for our clients, there are opportunities to discuss future procurement models, as well as look at opportunities arising from the new mayoral authorities, which will result in greater regional budgetary control and increased collaboration between authorities. Having secured more than £1bn of new work in the year, the Services division now has an order book of £5.3bn. This provides good long-term visibility of our workload, with potential extensions adding a further £2.5bn, which is more than 90% target revenue secured for FY18.

1 Including £0.6bn from McNicholas acquired post year end.
The Group has undergone a number of material changes to its overall shape and scale as part of the portfolio simplification actions undertaken during the year.

The net cash generated from these actions coupled with prudent capital management and targeted investment supports further organic growth, particularly through the Property and Residential divisions. This allows the Group to continue to enhance its systems and operational capability. The improving order book, increased capacity for investment and stable balance sheet demonstrate the strength of the Group’s business model and its ability to generate value across the economic cycle.

The reduction in non-underlying charges and a strong underlying performance have resulted in a statutory profit before tax of £25.8m (2016: loss of £34.9m) being reported.

**Accounting policies and segmental reporting**

The Group’s annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU (‘IFRSs’). There have been no significant changes to the accounting policies adopted by the Group during the year ended 30 June 2017.

The Group is working closely with its advisors to assess the potential impacts of IFRS15 ‘Revenue from Contracts with Customers’ and IFRS16 ‘Leases’, including the consideration of transition method. IFRS15 will impact on a number of judgemental areas currently accounted for under IAS11 ‘Construction Contracts’ and IAS18 ‘Revenue’. The Group is not currently contemplating early adoption and therefore the first accounts prepared under IFRS15 will be those for the year ended 30 June 2019. The main impact of IFRS16 will be to move the Group’s larger, longer term operating leases, primarily on property, onto the balance sheet, with a consequential increase in non-current assets and finance lease obligations. Operating lease charges included in administrative expenses will be replaced by depreciation and interest costs. No decision has yet been made on the timing of adoption of IFRS16.

Following material disposals in the year, the results of Mouchel Consulting and Biogen are presented as discontinued operations with a restatement of prior year comparatives. The Group’s UK Mining operations have been represented as continuing operations as a sale on acceptable terms could not be agreed in the year.

**Underlying financial performance**

The underlying financial performance of the Group continues to show good progress in the year, despite lower than anticipated trading volumes in the first quarter following the June 2016 Brexit referendum. The Group uses non-statutory performance measures prepared on an underlying basis, as the Board believes these give a better assessment of the underlying performance.

Underlying earnings per share has increased 7% on an organic basis, after adjusting for the disposal of the Mouchel Consulting business in the second quarter of the financial year. Group revenues, including the share of joint ventures, have increased by 5% with all divisions reporting organic growth.

Within the Property division, revenue of £182m (2016: £169m) represents 8% growth on the prior year. The division continues to move to more capital efficient funding structures where funding and equity from third-party investors can be used to enhance returns and balance the risk within the portfolio. As a consequence, increased joint venture revenue of £117m (2016: £71m) represented 64% of the division’s turnover. The average investment in joint ventures increased by 14% to £123m (2016: £108m) and the Group’s concentration in property investment outside London continued, with over 80% of turnover coming from outside the M25.

The Residential division saw total revenues of £376m (2016: £353m) increase by 6% to £376m (2016: £353m). For the first time this included a significant contribution from joint ventures of £28m (2016: nil), driven predominantly by the Group’s investment in the joint venture with Cross Keys Homes in March 2017. This investment allows sharing of expertise and risk between the partners as well as the introduction of third-party financing which enhances the return on capital. Total units completed increased by 3% to 2,200 of which two-thirds were generated from mixed tenure businesses where the division operates in partnership with local authorities, registered providers and other clients.
Financial performance

<table>
<thead>
<tr>
<th>Continuing operations</th>
<th>2017 Year ended 30 June</th>
<th>2016 Year ended 30 June</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue(^1)</td>
<td>£4.3bn</td>
<td>£4.1bn</td>
<td>+5</td>
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<tr>
<td>Group revenue</td>
<td>£4.1bn</td>
<td>£4.0bn</td>
<td>+3</td>
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<tr>
<td>Operating profit</td>
<td>– Underlying(^2)</td>
<td>– Reported(^2)</td>
<td></td>
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<tr>
<td></td>
<td>£145.6m</td>
<td>£141.1m</td>
<td>+3</td>
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<tr>
<td></td>
<td>– Reported</td>
<td>£48.2m</td>
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<tr>
<td></td>
<td>– Underlying(^2)</td>
<td>– Reported</td>
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<tr>
<td></td>
<td>£126.1m</td>
<td>£116.4m</td>
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<td></td>
<td>– Reported</td>
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<tr>
<td>Profit/(loss) before tax</td>
<td>– Underlying(^2)</td>
<td>– Reported</td>
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<tr>
<td></td>
<td>£25.8m</td>
<td>£34.9m</td>
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<td>Earnings/(losses) per share</td>
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<td>– Reported (Basic)</td>
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<td></td>
<td>– Reported (Basic)</td>
<td>15.3p (25.7)p</td>
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<tr>
<td>Dividend per share</td>
<td></td>
<td>67.5p</td>
<td>+5</td>
</tr>
</tbody>
</table>

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

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

\(^3\) Restated to present the results of Mouchel Consulting and Biogen as discontinued, following their sales in the year, and to restate the results of UK Mining into continuing operations.

In Construction, which comprises our UK building, infrastructure and international construction operations, there was a 6% increase in revenue\(^1\) to £2,019m (2016: £1,901m) driven by our strong presence on frameworks in our UK building business. Both the infrastructure and international businesses saw a modest decline in volumes in the year, the former following delays in major public infrastructure procurement and the latter after the decision to concentrate this business in the Middle East and close the Caribbean and Hong Kong businesses.

The Services division comprises infrastructure services (highways and utilities), property services (housing, facilities management and related services) and environmental services businesses. After a slow first half of the year, the division experienced an increase in volumes in the second half, delivering a 2% increase in full-year revenue\(^1\) to £1,688m (2016: £1,656m). The core of the division is the highways maintenance business where revenues increased by 5% to £780m (2016: £743m) highlighting its strong client relationships. The highways business also includes the revenue arising from the Group’s Australian operations of £123m (2016: £108m).

Group underlying operating profit\(^2\) of £145.6m (2016: £141.1m) represents 3% organic growth from the prior year. This is after charging £7.2m (2016: £2.4m) of interest and tax from joint ventures, as the Group increasingly operates with third-party funding models in both the Property and Residential divisions.

Recognising that the dynamics of the Group’s investing divisions (Property and Residential) and contracting divisions (Construction and Services) are markedly different, the primary key performance indicators used for measuring performance are return on average capital employed (ROCE) in the investing businesses and operating margin in the contracting businesses.

Underlying operating profit\(^2\) for the Property division of £25.8m represents a 21% increase from the prior year. Strong investor demand in the second half of the year compensated for a market dip in the first half of the year, immediately after the EU referendum. A strong ROCE of 23% reflects the robust trading and capital efficient models used and remains well in excess of the Group’s hurdle rate of 15%.

Within the Residential division the ongoing improvement in the quality of the land bank and strength of the UK housing market have seen margins\(^2\) improve to 6.1% (2016: 5.8%) despite higher volumes from mixed tenure operations.

This, combined with the increased volumes, has driven a 12% rise in underlying operating profit\(^2\) to £22.8m (2016: £20.3m). The increased mixed tenure offering and the investment in our joint venture with Cross Keys Homes has seen the average capital required to generate these returns reduce to £199m (2016: £231m) and consequently ROCE increase to 11% (2016: 9%).

The underlying operating profit\(^2\) from the Construction division of £39.8m (2016: £38.9m) represents an increase of 2%, with operating margins stable at 2.0% (2016: 2.0%). As with divisional volumes, the profitability was underpinned by the UK building business, particularly its strengthening position in numerous frameworks.

The Services division delivered an increase in underlying operating profit\(^2\) to £87.0m (2016: £86.1m) with consistent operating margins of 5.2% (2016: 5.2%), in line with the Group’s long-term margin expectations. This reflects a blended average across the division’s infrastructure and property services activities.

Corporate costs\(^2\) of £29.8m (2016: £25.6m) include £3m of charges arising from the creation of the Group’s finance shared service centre in Manchester, consolidating activities from a number of locations across the country. This centre has been integral to the rollout of the Group’s Enterprise Resource Planning (ERP) project which now encompasses 70% of all Group transactions on a single platform. The balance of Group overheads remains broadly in line with the prior year.

Divisional performance

<table>
<thead>
<tr>
<th>Property</th>
<th>ROCE 23% (2016: 23%)</th>
<th>Residential</th>
<th>ROCE 11% (2016: 9%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction Margin</td>
<td>2.0% (2016: 2.0%)</td>
<td>Services</td>
<td>Margin 5.2% (2016: 5.2%)</td>
</tr>
</tbody>
</table>
Net underlying finance costs\(^2\) of £19.5m (2016: £24.7m) are 21\% lower than the prior year reflecting the use of more efficient corporate funding streams including the Group’s Schuldschein facility entered into at the end of the 2016 financial year. In addition, the reduction in interest charge associated with the Group’s pension scheme to £2.0m (2016: £5.6m) reflects the continuing contraction in bond yields. Finally, and as noted in the operating profit position, the interest payable has benefited from the capital funding models employed, particularly in Property with £6.5m (2016: £2.2m) charged within operating profit rather than interest in continuing operations.

### Underlying net finance costs\(^2\)

<table>
<thead>
<tr>
<th></th>
<th>2017 £m</th>
<th>2016 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest payable and fees on borrowings</td>
<td>(16.9)</td>
<td>(17.7)</td>
</tr>
<tr>
<td>Interest payable on finance leases</td>
<td>(0.6)</td>
<td>(1.4)</td>
</tr>
<tr>
<td>Net interest on net defined benefit obligations</td>
<td>(2.0)</td>
<td>(5.6)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>(19.5)</strong></td>
<td><strong>(24.7)</strong></td>
</tr>
</tbody>
</table>

The tax charge\(^2\) for the period of £21.9m (2016: £20.9m) represents an effective tax rate of 17.4\% (2016: 18.0\%). This rate is 2\% lower than the headline rate of corporation tax and is driven by the use of historic losses on which deferred tax had not been provided for and the reduction in the future corporation tax rate to 17\%.

Underlying earnings per share\(^2\) of 106.8 pence represents a 7\% increase on the prior period (2016: 99.5 pence). The average number of shares in issue increased to 96.5m (2016: 95.2m) predominantly as a result of the 1.0m scrip shares issued in November 2016. During the year the scrip alternative to a cash dividend has been replaced by the option to participate in a Dividend Reinvestment Plan (DRIP).

### Non-underlying items

The Group has materially simplified its operating activities over the last two years following the acquisition of the Mouchel Group. The portfolio simplification, changes in laws and regulations and the sustained low level of commodity prices have resulted in a number of non-underlying charges in the year:

- **Caribbean**: the closure of the Caribbean business following the agreement of the final account with a client on a challenging project;
- **Hong Kong**: the closure of the Hong Kong business and the agreement of the process to settle the final accounts;
- **Mouchel Consulting**: the sale of Mouchel Consulting in October 2016;
- **Biogen**: the sale of Kier’s joint venture interest in Biogen, the renewable energy business, in April 2017;
- **Housing joint venture**: the establishment of the Cross Keys Homes joint venture in March 2017, which released cash for reinvestment in new opportunities across the Group and enables our private house building business to deliver a significantly improved return on capital;
- **HSE sentencing guidelines**: a provision relating to a potential increase in fines for historic health and safety incidents following the introduction of new sentencing guidelines;
- **Environmental contract curtailment**: the effects of reduced recylcate income and the curtailment of the East Sussex environmental contract four years earlier than its stated termination date.

The earnings and cash impact of these transactions are outlined in the table below. The overall net impact of these is a charge of £75m in the year and the generation of £67m of cash.

During the year the Group also recognised a non-cash amortisation charge of £22.3m (2016: £21.5m) and finance charges of £2.9m (2016: £2.8m). The amortisation charge primarily relates to the contract rights from acquired businesses, in particular Mouchel and May Gurney.

### Cash performance

The Group’s capital structure comprises of a number of sources of funding, mainly long-term in nature, and operates under two key disciplines.

Firstly, that year end net debt (including finance leases) will be less than earnings before interest, taxation, depreciation and amortisation (EBITDA).

Secondly, that peak net debt will be less than the Group’s combined investment in property and residential assets. The first of these disciplines recognises that an efficient capital structure for a Group with investment businesses will include an element of debt. The second recognises that the Construction and Services divisions in particular are seasonal in nature but they should remain materially cash positive as standalone divisions and must maintain strict working capital management.

At year end, the net debt to EBITDA ratio was 0.7 (2016: 0.7) and the level of peak net debt in February 2017 was 85\% of the value of property and residential assets. Both positions remain well within our two key disciplines.

### Cash performance KPI

<table>
<thead>
<tr>
<th></th>
<th>2017 charge £m</th>
<th>2017 cash inflow/ (outflow) £m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Closure of businesses</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Caribbean</td>
<td>(60)</td>
<td>(43)</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>(26)</td>
<td>(11)</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>59</td>
</tr>
<tr>
<td>Biogen</td>
<td>(8)</td>
<td>10</td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cross Keys JV</td>
<td>(2)</td>
<td>64</td>
</tr>
<tr>
<td>HSE</td>
<td>(8)</td>
<td>(2)</td>
</tr>
<tr>
<td>Environmental</td>
<td>(11)</td>
<td>(7)</td>
</tr>
<tr>
<td>Other</td>
<td>–</td>
<td>(3)</td>
</tr>
<tr>
<td><strong>Total cash non-underlying items</strong></td>
<td>(75)</td>
<td>67</td>
</tr>
<tr>
<td><strong>Total non-cash non-underlying items</strong></td>
<td>(25)</td>
<td>–</td>
</tr>
<tr>
<td><strong>Total non-underlying items</strong></td>
<td>(100)</td>
<td>67</td>
</tr>
</tbody>
</table>

Average debt\(^1\) for the year of £320m was £40m higher than the prior year following planned investment in the first half of the year, particularly in Property. With the investment in property and residential assets being concentrated in the first and third quarters of the year, and receipts from non-underlying disposals in the second and fourth quarters, this investment had a disproportionate impact on the Group’s net debt position during the year.
The overall net debt position of the Group increased from £99m at June 2016 to £110m at June 2017. This £11m net outflow was materially lower than anticipated, reflecting strong operational cash conversion within the Construction and Services divisions and capital efficiency in Property and Residential, notably the conclusion of the Cross Keys Homes joint venture, offsetting the increased investment in property assets.

In reviewing operating cash conversion, the Group generated £164m (2016: £181m) from operating activities and joint ventures before movements in working capital. This represents an operating cash conversion of 113% (2016: 121%) for the year, a more normal return than that reported in the prior year.

During the year our working capital disciplines were maintained, with a small inflow of £4m being recorded. The billing cycle and revenue conversion remain major areas of focus with debtor and WIP days moving to 16 days (2016: 16 days) and 44 days (2016: 50 days) respectively. The Group’s investment in property and residential assets held within joint ventures and inventories resulted in a cash outflow in the year of £76m, with this discretionary investment supporting growth in the medium term.

In addition to this, the Group invested a total of £44m in operational IT systems including the ERP platform and front-end management systems for the utilities, housing maintenance and facilities management businesses. The Group also invested £16m (2016: £14m) in property, plant and equipment and had a net cash outflow on finance leases of £12m (2016: £14m).

Cash dividends of £50m (2016: £50m) were paid in 2017, in line with the prior year due to the high uptake of the scrip dividend. Amounts paid to the Group’s pension schemes increased to £31m from £25m in line with the previously agreed deficit recovery plans while cash interest of £17m was lower than the prior year reflecting the cheaper sources of funding available to the Group.

A net cash inflow in respect of the non-underlying transactions of the Group of £67m was generated in the year. This included net proceeds of £59m from the sale of Mouchel Consulting in October 2016 and £10m from the sale of the Group’s interest in the Biogen renewable energy business. In addition to the above, the Group’s joint venture with Cross Keys Homes generated £64m in the final quarter of the year. These non-underlying gains more than mitigated the cash outflows from the closures of our operations in Hong Kong (£11m) and the Caribbean (£43m).

In conclusion, the Group has substantially completed the simplification programme and, in doing so, has released cash from non-core assets and activities allowing investment in our future growth businesses. The Group advances into 2018 with a strong balance sheet and focused operations whilst maintaining its strict risk management disciplines.
Strategic Report
Financial review continued

Acquisition of McNicholas
On 12 July 2017 the Group concluded its acquisition of the McNicholas Group for a cash consideration of £13.4m. The net liabilities of the business totalled £33.0m at acquisition date including a net debt position of £8.0m. A further £14.0m of deferred contingent consideration is payable, should the business achieve its earn-out targets in the 2018 and 2019 financial years.

The McNicholas Group has defined benefit pension schemes that are closed to future accrual, with a deficit recognised on the opening balance sheet of £11.3m. The structure of the acquisition and anticipated returns are expected to, as a minimum, achieve the Group’s overall capital hurdle requirement of a 15% return on capital.

Order books

<table>
<thead>
<tr>
<th>At 30 June</th>
<th>2017 £bn</th>
<th>2016 £bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>4.2</td>
<td>3.2</td>
</tr>
<tr>
<td>Services</td>
<td>4.7</td>
<td>5.3</td>
</tr>
<tr>
<td>Total</td>
<td>8.9</td>
<td>8.5</td>
</tr>
</tbody>
</table>

The order book of £8.9bn increased by 5%, adjusting for the sale of Mouchel Consulting. Growth was driven by strong pipeline conversion in both Construction and Services, particularly in regional building and highway services, providing visibility of over 90% of revenues for the coming year. The acquisition of McNicholas on 12 July 2017 produces a combined order book of £9.5bn.

Pensions
The Group concluded its triennial valuation of the Kier Group and Mouchel Group pension schemes with the trustees in August 2017. These valuations were based on a reference date of 31 March 2016 and represent the first valuations undertaken as an enlarged Group following the Mouchel acquisition in June 2015. I am pleased to report that the Group’s covenant was assessed as having improved by the trustee’s independent advisors and moved to a ‘Tending to Strong’ rating under guidelines issued by the pension regulator.

Deficit contributions under the new plan will be reduced to £21m per annum in 2018, 2019 and 2020. This has been achieved by deferring recovery plan contributions by a total of £23m over the three year period with the deferred payment (including interest) being made in the 2021 financial year. Thereafter, the pension contributions will gradually increase. While the total deficit contributions will be maintained, the net preset value of the commitment will be lower due to the phasing of payments.

Cash contributions to the schemes under the existing deficit recovery plans totalled £31m (2016: £25m) in the year.

In parallel to the triennial valuations, the total Group deficit under the IAS19 accounting standard has reduced to £70.2m (2016: £72.0m) after accounting for deferred taxation. The Group continues to benefit from hedging against bond yields and inflation within the pension schemes’ asset portfolios, and this combined with a strong equity performance has seen total assets increase by £76m to £1,637m (2016: £1,561m) representing 95% (2016: 95%) of total obligations.

The overall liabilities of the pension schemes have increased by £73m in the year to £1,721m (2016: £1,648m), driven by the continuing compression of bond yields and an increase in future RPI and CPI inflation.

Treasury facilities and policies
As noted above, the Group operates its treasury and working capital management processes under strict year end and peak net debt disciplines. Actual facility usage is monitored on a daily basis, with non-treasury cash, primarily within joint venture accounts, consolidated weekly. Rolling capital forecasts are maintained on a three-month, 12-month and 36-month basis and reviewed in conjunction with weekly working capital and cash reviews with treasury, finance and operational leadership.

In July 2017, the Group concluded a review of its existing Revolving Credit Facility (RCF). The Group extended its facilities for an additional two years to 2022 under improved terms and expanded its lending group to include additional members within the overarching RCF agreement. The revised profile of the Group’s committed facilities is outlined below, with 89% (2016: 24%) repayable after 2021.

Maturity of committed facilities (£m)

<table>
<thead>
<tr>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
<th>FY23</th>
<th>FY24</th>
<th>FY25</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>200</td>
<td>400</td>
<td>600</td>
<td>800</td>
<td>1000</td>
<td>1200</td>
<td>1400</td>
</tr>
</tbody>
</table>

The Group has £14.3m (2016: £26.3m) of finance lease obligations on the balance sheet at 30 June 2017. The overall reduction was predominantly driven by environmental services contracts exited in the year.

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 USPP 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 45.0 pence per share on the 97m shares in issue at 30 June 2017. Combined with the interim dividend of 22.5 pence for shares in issue at February 2017, the total dividend declared this year of 67.5 pence (2016: 64.5 pence) represents a 5% increase on prior year.

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 have been carefully considered by the Board in relation to the Group’s ability to operate within its current and foreseeable resources.

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 2017 financial statements. The full going concern statement is set out on page 62. A summary of the work undertaken by management and the Risk Management and Audit Committee (RMAC) to support this statement is set out on page 75.

Viability statement
The Board has assessed the viability of the Group over a three-year period ending 30 June 2020, as it is required to do under the UK Corporate Governance Code. The Board’s statement is set out on page 62. A summary of the work undertaken by management and the RMAC to support this statement is set out on page 75.

Bev Dew
Finance Director
20 September 2017

This Strategic Report was approved by the Board and signed on its behalf by:

Haydn Mursell
Chief Executive
20 September 2017

Bev Dew
Finance Director