Kier Group

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Louise Turner-Smith IR

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Kier Group

Overview
**Market-leading positions**

**Strong long-term fundamentals**

<table>
<thead>
<tr>
<th>Infrastructure Services</th>
<th>Buildings</th>
<th>Developments &amp; Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>c.£2bn Revenue</td>
<td>c.£2bn Revenue</td>
<td>c.£1bn Revenue</td>
</tr>
</tbody>
</table>

Invest, build and maintain all asset classes

Repeat clients and clients working with 2+ businesses > 50% of revenue
Strategy focused on market-leading positions

- Procure multiple services
- Focus on safety, quality, not just price
- Understand teamwork and the benefits of early engagement
- Leading market positions
- Appropriate risk profile
- Focus on cash generation

- Strong fundamentals
- Aligned to the UK’s priorities
- Balanced client base
- Broad sector spread
- National coverage

- Major projects
- Mid-sized projects
- Minor works
- Maintenance & services

- Roads
- Rail
- Utilities & Power Gen
- General Civils & other

- Education & Health
- Central Government
- Local Government
- Private commercial & other

- Property Development
- Housing - New Build
- Housing - Maintenance

- Infrastructure Services
- Buildings
- Developments & Housing

C.£2bn Revenue
C.£2bn Revenue
C.£1bn Revenue

Kier Group plc – North America roadshow April 2018
Progression towards Services
Operating profit¹

HY14 | £51m
---|---
| Property | 31% | Residential | 25% | Construction | 47% | Services | 11%

HY15 | £57m
---|---
| Property | 21% | Residential | 1% | Construction | 41% | Services | 33%

HY16 | £70m
---|---
| Property | 10% | Residential | 1% | Construction | 56% | Services | 25%

HY17 | £74m
---|---
| Property | 11% | Residential | 9% | Construction | 50% | Services | 28%

HY18 | £82m
---|---
| Property | 15% | Residential | 11% | Construction | 54% | Services | 20%

¹Arising on continuing operations, stated before non-underlying items, excluding corporate costs.
Our strategic priorities

Vision 2020

- Operate a safe and sustainable business
- Grow to be a top 3 player in chosen markets
- Top quartile performance and efficiency
- Cash positive ROCE > 15%
- Sector leading customer experience
- Attract and retain talent
- Embrace technology and innovation
Approach
Contracting risk management approach

- Careful selection on ‘where to’ operate
  - Sectors
  - Geographies
  - Contract types / Procurement routes
- Pre-contract / Pre-investment review
- Group commercial standards
  - Risk and value based

- Committee for capital investment appraisals
- Post contract and reporting processes

- £10m Average project size
- >70% Frameworks
- Lower risk contract models
Approach
Infrastructure Services and Buildings

**INFRASTRUCTURE SERVICES**

- **Lower value works**
  - £2m average
  - Schedule of rates

- **Cost reimbursable/plus**
  - JV to manage resource

- **Target cost**
  - JV to manage resource

**BUILDINGS**

- **Two stage bidding and frameworks**
  - £7-8m average;
  - <12 month duration
  - Long-standing client relationships

**80% SERVICES**

- Lower risk
  - e.g. Highways England

**HINKLEY**

- Lower risk
  - Focus on people, cash flows, terms and conditions

**CROSSRAIL**

- Education
- Health
- Commercial
- Mixed-use
Corporate responsibility

Safety
- Industry-leading AIR <100
- Workforce health and wellbeing improved

Customer experience
- 91% recommend us

Investment in Oracle
- Finance, HR, Procurement

Environment
- 30x30 energy strategy launched and in progress

Training and development
- Active member of the 5% Club
- ‘Shaping your World’ campaign launched to improve the image of the industry
### Future growth

<table>
<thead>
<tr>
<th>Growth opportunity</th>
<th>How</th>
</tr>
</thead>
</table>
| Infrastructure Services | - Leading market positions  
- UK under investment – fibre rollout, CP6, HS2+, Smart Motorways  
- Capital works 8% pa growth; maintenance contracts extended to 2022 |
| Buildings | - Leading market positions  
- Growing population – schools, healthcare  
- New sectors – defence, life sciences, aviation |
| Developments & Housing | - Property stable, non-speculative approach  
- Severe UK affordable housing shortage  
- Margin improvement also via land bank mix |

#### Average net debt

![Graph showing average net debt from 2017 to 2020]

- **Previously**
- **Now**
Financial highlights

Interim results for the six months ended 31 December 2017
Financial highlights

- Good performance in line with management expectations
- Operating profit\(^1\) of £60.0m up 5%
- Earnings per share\(^1\) of 41.0p up 3%
- Net debt of £239m in line with expectations
- Order book of c.£9.5bn with potential extensions of c.£2.5bn
- Interim dividend of 23p up 2%

\(^1\)Arising on continuing operations, stated before non-underlying items.
On track with Vision 2020 targets

<table>
<thead>
<tr>
<th>Key metrics</th>
<th>2020 target</th>
<th>December 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual average operating profit growth</td>
<td>&gt;10%</td>
<td>On target</td>
</tr>
<tr>
<td>Property – ROCE</td>
<td>&gt;15%</td>
<td>Ahead</td>
</tr>
<tr>
<td>Residential – ROCE</td>
<td>to 15%</td>
<td>Improving and on track</td>
</tr>
<tr>
<td>Construction – EBITA</td>
<td>to 2.5%</td>
<td>On track</td>
</tr>
<tr>
<td>Services – EBITA</td>
<td>to 5.0%</td>
<td>On track</td>
</tr>
<tr>
<td>Net debt: EBITDA</td>
<td>1:1</td>
<td>Achieved</td>
</tr>
<tr>
<td>Dividend cover</td>
<td>2x</td>
<td>Improving and on track</td>
</tr>
</tbody>
</table>
## Income statement

### EPS and dividend growth

<table>
<thead>
<tr>
<th></th>
<th>Six months to 31 Dec 2017</th>
<th>Six months to 31 Dec 2016</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£m</td>
<td>£m</td>
<td>%</td>
</tr>
<tr>
<td><strong>Revenue</strong>&lt;sup&gt;1&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2,154</td>
<td>2,001</td>
<td>+8</td>
</tr>
<tr>
<td><strong>Operating profit</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>12.2</td>
<td>7.7</td>
<td>+58</td>
</tr>
<tr>
<td>Residential</td>
<td>8.7</td>
<td>8.1</td>
<td>+7</td>
</tr>
<tr>
<td>Construction</td>
<td>16.7</td>
<td>20.8</td>
<td>-20</td>
</tr>
<tr>
<td>Services</td>
<td>44.4</td>
<td>37.2</td>
<td>+19</td>
</tr>
<tr>
<td>Corporate</td>
<td>(22.0)</td>
<td>(16.5)</td>
<td>+33</td>
</tr>
<tr>
<td><strong>Underlying operating profit</strong></td>
<td></td>
<td></td>
<td>+5</td>
</tr>
<tr>
<td></td>
<td>60.0</td>
<td>57.3</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying operating profit margin</strong></td>
<td>2.8%</td>
<td>2.9%</td>
<td>+10</td>
</tr>
<tr>
<td><strong>Net finance cost</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td>(11.2)</td>
<td>(10.2)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit before tax</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td>48.8</td>
<td>47.1</td>
<td>+4</td>
</tr>
<tr>
<td><strong>Basic earnings per share</strong>&lt;sup&gt;2&lt;/sup&gt;</td>
<td>41.0p</td>
<td>39.7p</td>
<td>+3</td>
</tr>
<tr>
<td><strong>Interim dividend per share</strong></td>
<td>23.0p</td>
<td>22.5p</td>
<td>+2</td>
</tr>
</tbody>
</table>

<sup>1</sup>Group and share of joint ventures for continuing operations.

<sup>2</sup>Arising on continuing operations stated before non-underlying items.

<sup>3</sup>Restated to classify Biogen as discontinued.
Property performance
Stable capital generating continued long-term strong returns

Financials

<table>
<thead>
<tr>
<th>Revenue¹</th>
<th>£138m</th>
<th>+200%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit¹</td>
<td>£12.2m</td>
<td>+58%</td>
</tr>
</tbody>
</table>

Operational highlights

- 8 year pipeline £1.5bn GDV
- Average capital employed £105m
- ROCE stable 23%
- Well-diversified end-market exposure
- Focused on non-speculative approach
- Regional bias outside London

ROCE & average capital employed

<table>
<thead>
<tr>
<th>Year</th>
<th>ROCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>15%</td>
</tr>
<tr>
<td>2015</td>
<td>17%</td>
</tr>
<tr>
<td>2016</td>
<td>19%</td>
</tr>
<tr>
<td>2017</td>
<td>21%</td>
</tr>
<tr>
<td>HY18</td>
<td>17%</td>
</tr>
</tbody>
</table>

Equity invested c.£200m

- Industrial 13%
- Retail & leisure 13%
- Offices 30%
- Student accommodation 15%
- Mixed-use 29%

¹ Group and share of joint ventures from continuing operations
Residential performance
Stable capital with ROCE increasing

Financials

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£166m</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating profit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 3 year land bank, equity invested c.£300m:
  - Private led units c.2,700
  - Mixed tenure led units c.1,600

- 965 units completed
- Growing mixed tenure land led strategy
  - Mixed tenure pipeline £600m

ROCE

<table>
<thead>
<tr>
<th></th>
<th>H1 2014</th>
<th>H1 2015</th>
<th>H1 2016</th>
<th>H1 2017</th>
<th>H1 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>11%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mixed tenure</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Average capital employed

- Total
- Private
- Mixed tenure

1 Group and share of joint ventures
Construction performance
Robust order book

Financials

<table>
<thead>
<tr>
<th></th>
<th>H1</th>
<th>FY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>£949m</td>
<td>-7%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>£16.7m</td>
<td>-20%</td>
</tr>
</tbody>
</table>

Operational highlights

- Order book: £4.7bn +12%
- Caribbean and Hong Kong settlement concluded; £7.7m final cost incurred
- Revenue second half weighted, 100% secured for 2018
- 70% delivered through frameworks
- Average project size £7 - 8m

Underlying operating profit and margins

- H1: 2.0%, 2.1%
- FY: 2.2%, 1.9%, 2.0%, 2.0%, 1.8%

Contract size distribution

- Average £7 - 8m

1 Stated before non-underlying items.
Services performance
Increasing revenue with stable high quality margins

Financials

- Revenue\(^1\)
  - £901m +17%

- Operating profit\(^2\)
  - £44.4m +19%

Operational highlights

- Order book
  - £4.8bn +2%
- Strong Highways performance
- Areas 3 & 9 three-year extensions in negotiation
- Stable operating margin
- McNicholas integration progressing well

Underlying operating profit and margins

- 2014: £4.3%, £4.8%
- 2015: £4.2%, £4.6%
- 2016: £4.7%, £5.2%
- 2017: £4.8%, £5.2%
- 2018: £4.9%

Sector mix

- Highways 42%
- Utilities 25%
- Workplace Services 13%
- Other 5%
- Housing Maintenance - private 5%
- Housing Maintenance - public 10%

---

\(^1\) Group and share of joint ventures.
\(^2\) Stated before non-underlying items.
### Construction and Services order book

<table>
<thead>
<tr>
<th></th>
<th>At 31 Dec 2017</th>
<th>At 30 June 2017</th>
<th>Change %</th>
<th>At 31 Dec 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>4.7</td>
<td>4.2</td>
<td>+12</td>
<td>3.3</td>
</tr>
<tr>
<td>Services</td>
<td>4.8</td>
<td>4.7</td>
<td>+2</td>
<td>5.6</td>
</tr>
<tr>
<td>Total</td>
<td>9.5</td>
<td>8.9</td>
<td>+7</td>
<td>8.9</td>
</tr>
</tbody>
</table>

- Increased control of joint ventures would add £0.5bn to the order book
- The order book provides long-term visibility with 100% of revenues secured for FY18
**Group net debt**

Strong operating cash conversion\(^1\) of 125%

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

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\(^1\)Cash conversion is calculated by dividing operating cash flows by underlying operating profit. This calculation excludes the impact of the Caribbean and Hong Kong closures.

\(^2\)Net debt is shown net of the impact of hedging instruments.
- Average net cash in Construction and Services has increased.
Capital structure summary

- The Group continues to have strong operational cash conversion
  - Cash conversion >100% for 5 years
- Investment in Property and Residential sufficient to achieve Vision 2020 targets
  - Capital investment maintained and recycled
- Working capital debtor and WIP collection improved
- Stable supply chain finance utilisation
- The Construction and Services contracting divisions are generating cash in excess of profit
- From FY19 average Group net debt is expected to decrease

- H1 average net debt £350m
- Assets (at cost) £500m
- On track: net debt <1x EBITDA
Pensions
Strong performance with asset gain of £90m

- Pension deficit reduced to £19m driven by asset gain
- Triennial valuation concluded
  - Annual deficit reduction payments reduced to £21m until 2020

<table>
<thead>
<tr>
<th>Group Pension Schemes:</th>
<th>At 31 Dec 2017 £m</th>
<th>At 30 June 2017 £m</th>
<th>Change £m</th>
<th>At 31 Dec 2016 £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market value of assets</td>
<td>1,749</td>
<td>1,637</td>
<td>+112</td>
<td>1,651</td>
</tr>
<tr>
<td>Present value of liabilities</td>
<td>(1,772)</td>
<td>(1,721)</td>
<td>-51</td>
<td>(1,733)</td>
</tr>
<tr>
<td>Deficit in the schemes</td>
<td>(23)</td>
<td>(84)</td>
<td>+61</td>
<td>(82)</td>
</tr>
<tr>
<td>Deferred tax</td>
<td>4</td>
<td>14</td>
<td>-10</td>
<td>14</td>
</tr>
<tr>
<td>Net pension liability</td>
<td><strong>(19)</strong></td>
<td><strong>(70)</strong></td>
<td><strong>+51</strong></td>
<td><strong>(68)</strong></td>
</tr>
</tbody>
</table>

Key assumptions:
- Discount rate: 2.50% 2.65% 2.75%
- Inflation rate - RPI: 3.10% 3.20% 3.20%
- Inflation rate - CPI: 2.00% 2.10% 2.10%
## Guidance

<table>
<thead>
<tr>
<th></th>
<th>FY18</th>
<th>FY19-20</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Operating profit</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td>ROCE &gt; 15%</td>
<td>ROCE &gt; 15%</td>
</tr>
<tr>
<td>Residential</td>
<td>ROCE improving</td>
<td>15%</td>
</tr>
<tr>
<td>Construction</td>
<td>Margin c. 2%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Services</td>
<td>Margin c. 5%</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Central costs</strong></td>
<td>£35-40m incl. McNicholas integration costs and parallel running costs</td>
<td>Reducing to 2020</td>
</tr>
<tr>
<td><strong>Finance costs</strong></td>
<td>Growing in line with average net debt</td>
<td></td>
</tr>
<tr>
<td><strong>Tax rate</strong></td>
<td>c.18%</td>
<td></td>
</tr>
<tr>
<td><strong>Average net debt</strong></td>
<td>H2 £370m, FY £360m</td>
<td>Reducing</td>
</tr>
<tr>
<td><strong>Pension contribution</strong></td>
<td>£25m</td>
<td>£21m</td>
</tr>
<tr>
<td><strong>Capex (incl. finance leases)</strong></td>
<td>c.£65m</td>
<td>c.£35m</td>
</tr>
<tr>
<td><strong>Dividend</strong></td>
<td></td>
<td>Target 2x dividend cover</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>c.£20 - £40m pa</td>
<td></td>
</tr>
</tbody>
</table>
Financial summary

- Good performance in line with management expectations
- Earnings per share\(^1\) of 41.0p up 3%
- Net debt position in line with expectations
- Stable investment in Property and Residential divisions
- Order book of c.£9.5bn with potential extensions of c.£2.5bn
- Pension deficit reduced to £19m
- Interim dividend of 23p up 2%

\(^1\)Arising on continuing operations, stated before non-underlying items.
Operational highlights
A market and client-led strategy
Robust business model

- Three market verticals
- Strong long-term fundamentals
- Leading market positions
- Strong client relationships
- Focus on qualitative measures, not only price
- Multiple services available
- Opportunity for growth

Annualised revenue

<table>
<thead>
<tr>
<th>Build</th>
<th>Maintain</th>
<th>Developments &amp; Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major projects</td>
<td>Roads, Rail, Utilities &amp; Energy, General Civils &amp; other</td>
<td>Education &amp; Health, Central Government, Local Government, Private commercial &amp; other</td>
</tr>
<tr>
<td>Mid-sized projects</td>
<td>Roads, Rail, Utilities &amp; Energy, General Civils &amp; other</td>
<td>Education &amp; Health, Central Government, Local Government, Private commercial &amp; other</td>
</tr>
<tr>
<td>Minor works</td>
<td>Roads, Rail, Utilities &amp; Energy, General Civils &amp; other</td>
<td>Education &amp; Health, Central Government, Local Government, Private commercial &amp; other</td>
</tr>
<tr>
<td>Maintenance &amp; services</td>
<td>Roads, Rail, Utilities &amp; Energy, General Civils &amp; other</td>
<td>Education &amp; Health, Central Government, Local Government, Private commercial &amp; other</td>
</tr>
</tbody>
</table>

- Property Development, Housing - New Build, Housing - Maintenance
- Infrastructure Services, Residential, Construction, Services
- Buildings, Development & Housing

Annualised revenue:
- c£2bn
- c£2bn
- c£1bn
# Infrastructure Services

## Markets
- Highways
- Rail
- Energy (Power generation & distribution)
- Water
- Telecoms

## Position

<table>
<thead>
<tr>
<th>Position</th>
<th>Company</th>
<th>Revenue (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kier</td>
<td>1.7</td>
</tr>
<tr>
<td>2</td>
<td>Costain</td>
<td>1.6</td>
</tr>
<tr>
<td>3</td>
<td>Balfour Beatty</td>
<td>1.5</td>
</tr>
<tr>
<td>4</td>
<td>Amey</td>
<td>1.2</td>
</tr>
</tbody>
</table>

## Approach and performance
- Long-term order book
  - Beyond 2020
- Lower risk contracts
  - Maintenance focus
- Essential services

## Annualised Revenues
- c.40% of Group revenue
- Services/maintenance 80%
- Construction 20%
- Rail 5%
- Telco 8%
- Power 14%
- Water 16%
- Highways 57%

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1Company accounts, analyst research, management estimates.
Infrastructure Services

Markets
- Market size: £26bn
- Kier 7% share
- Maintenance
  - Stable
- Capital works
  - 8% pa growth

Highways
- Market leader in the UK
- Repairs and maintenance stable
  - Areas 3 and 9 extensions in negotiation
- Capital works increasing
  - Smart Motorways - 100% share of schemes
  - RIS2 up to £30bn (RIS1 £15bn – £17bn)

Outlook - Highways
- Maintenance Stable
- Capital works Growth

<table>
<thead>
<tr>
<th>£bn</th>
<th>Roads</th>
<th>Rail</th>
<th>Energy</th>
<th>Water</th>
<th>Telco / Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital works</td>
<td>£17bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance</td>
<td>£9bn</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Infrastructure Services

### Utilities
- Top 3 player in the UK
- Build and maintain utility networks
- McNicholas performing well
  - Strengthened positions in Telco and Energy
- Strong near-term pipeline
  - AMP7 totex c.£44bn (AMP6 £44bn)
  - £7bn investment to 2020 in broadband

### Others
- Energy
  - Hinkley
- Rail
  - HS2, Crossrail
  - CP6 c.£36bn (CP5 £30bn) on renewals, total market with enhancements valued at £47bn
- Very selective on new work

<table>
<thead>
<tr>
<th>Hinkley</th>
<th>HS2</th>
<th>Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.jpg" alt="Hinkley" /></td>
<td><img src="image2.jpg" alt="HS2" /></td>
<td>Telco</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Energy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Water</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rail</td>
</tr>
</tbody>
</table>
Buildings

Markets
- Building
  - Education
  - Health
  - Commercial
- Facilities Management (FM)
  - c.30% from Building clients

Approach and performance
- 70% framework awards
- Long-standing and repeat clients
  - Similar across Building and FM
- National coverage
- Modest value contracts
  - Average project size c.£7-8m

Annualised Revenues
- Construction 90%
- Services/maintenance 10%
- Other 7%
- Health 10%
- Commercial 23%
- Education 50%
- FM 10%
- c.40% of Group revenue
Buildings

### Markets
- Value of market £62bn
- Kier 3% share
- Disciplined approach
  - Contract selection
  - Cash generation
  - Supply chain partners

### Position

<table>
<thead>
<tr>
<th>Position</th>
<th>Company</th>
<th>Value (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kier</td>
<td>£1.9bn</td>
</tr>
<tr>
<td>2</td>
<td>Balfour Beatty</td>
<td>£1.5bn</td>
</tr>
<tr>
<td>3</td>
<td>Galliford Try</td>
<td>£1.0bn</td>
</tr>
<tr>
<td>4</td>
<td>BAM Construct</td>
<td>£1.0bn</td>
</tr>
<tr>
<td>5</td>
<td>Morgan Sindall</td>
<td>£0.8bn</td>
</tr>
</tbody>
</table>

### Building
- Focus on frameworks
  - Leading Education and Health provider
    - ESFA framework & P22 framework
- Fewer than 5 projects >£50m in value
- London and SE activity <10% revenue
- Growth forecast to be ahead of market
  - Strength of our market position
  - New sectors
    - Defence
    - Life sciences
    - Aviation

---

1 Company accounts, analyst research, management estimates.
Developments & Housing

Markets

- Property developments
  - Mixed-use
  - Offices
  - Student accommodation
  - Retail and leisure
  - Industrial

- Housing
  - New build
  - Maintenance

£500m asset base (cost)

c.20% of Group revenue

Property developments

- Top 3 trader developer
- Quick turnover of schemes
- Capital efficient joint ventures
- Non-speculative approach
  - >80% of activity is outside London
- Broad sector spread with £1.5bn pipeline
- Achieved Vision 2020 capital levels
  - >15% ROCE achieved
- Significant benefit to the Group
  - Utilises free cash flow
  - Delivers excellent returns
  - Provides clients with development expertise
  - Generates >£100m of revenue for other parts of the Group
### Developments & Housing

#### Housing – new build
- Achieved Vision 2020 capital levels
- On track for 15% ROCE by 2020
- Severe affordable housing shortage in UK
- Average private house price c.£240k
- Help to Buy accounts for 50% of sales
- Improving national coverage
- Increasing use of joint ventures
- Pipeline of £2bn over next 5+ years

#### Housing – maintenance
- Post Grenfell challenges for clients
- Competition for limited ‘usual’ workload
- Agile workforce and broader client relationships help to mitigate this

#### Housing Data

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing associations &amp; LAs</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Private</td>
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<td>0</td>
<td>0</td>
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<td>0</td>
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</tbody>
</table>

Government target Nov 17

#### Pipeline – new build

<table>
<thead>
<tr>
<th>Year</th>
<th>FY18</th>
<th>FY19</th>
<th>FY20</th>
<th>FY21</th>
<th>FY22</th>
</tr>
</thead>
<tbody>
<tr>
<td>£m</td>
<td>400</td>
<td>340</td>
<td>380</td>
<td>280</td>
<td>220</td>
</tr>
</tbody>
</table>

Revenue level 2018

---

1Department for Communities and Local Government (DCLG).
Summary and outlook
On course for Vision 2020 targets

- Good first half performance
- Leading market positions in long-term growth markets focused on UK priorities
- Proven track record of financial and operational delivery
- Disciplined bid and risk management
- Strengthening order books/pipelines
- Confident to deliver double-digit profit growth in 2018 and in achieving Vision 2020 targets

<table>
<thead>
<tr>
<th>Infrastructure Services</th>
<th>Buildings</th>
<th>Developments &amp; Housing</th>
</tr>
</thead>
<tbody>
<tr>
<td>No 1 highways provider – capital works &amp; maintenance</td>
<td>No 1 regional builder</td>
<td>Top 3 trader developer</td>
</tr>
<tr>
<td>Top 3 player in utilities</td>
<td>National reach, local delivery</td>
<td>Top 3 provider of affordable and social housebuilding and maintenance market</td>
</tr>
<tr>
<td>Investment needed in the UK</td>
<td>Common clients with FM</td>
<td>UK shortage / Gov’t focus</td>
</tr>
<tr>
<td></td>
<td>Serving a growing population</td>
<td></td>
</tr>
</tbody>
</table>
Appendices
Supply chain finance illustrated

Invoice date

Day 0

Draw down possible bank pays supplier

21

Normal payment terms

60

Potential working capital effect

75

Kier pays bank

90

Supply chain benefit at <2% interest cost

£150 – 170m average utilisation*

* Included in trade payables
Contracting – working capital flows
Improving working capital

Working capital flows

<table>
<thead>
<tr>
<th>Working capital days</th>
<th>WIP</th>
<th>Debtors</th>
<th>Accruals</th>
<th>Creditors</th>
<th>WC as a % revenue</th>
<th>Working capital as % of revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY14</td>
<td>80</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>12%</td>
</tr>
<tr>
<td>HY15</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>10%</td>
</tr>
<tr>
<td>FY15</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>8%</td>
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<tr>
<td>HY16</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>6%</td>
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<tr>
<td>FY16</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>4%</td>
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<tr>
<td>HY17</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>2%</td>
</tr>
<tr>
<td>FY17</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>HY18</td>
<td>60</td>
<td>40</td>
<td>20</td>
<td>0</td>
<td>0</td>
<td>-2%</td>
</tr>
</tbody>
</table>
## Joint venture financials - Capital efficient developments

### OWNED - £50m GDV\(^1\)

- £40m Kier equity
- £10m Kier operating profit

### JOINT VENTURE - £50m GDV\(^1\)

- £30m SPV non-recourse debt
- £10m equity
  - £9m Kier / £1m JV partner
- £3m finance costs
- £7m operating profit
  - £6.3m Kier / £0.7m JV partner

### Kier Cash flow

<table>
<thead>
<tr>
<th>Kier Cash flow</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>(£10)m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>WIP</td>
<td>(£20)m</td>
<td>(£10)m</td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td>£50m</td>
<td></td>
</tr>
<tr>
<td>ROE</td>
<td></td>
<td>18%</td>
<td></td>
</tr>
</tbody>
</table>

### Kier cash flow

<table>
<thead>
<tr>
<th>Kier cash flow</th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>JV investment</td>
<td>(£9)m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash dividend(^2)</td>
<td></td>
<td></td>
<td>£15.3m</td>
</tr>
<tr>
<td>Revenue</td>
<td></td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>ROE</td>
<td></td>
<td></td>
<td>25%</td>
</tr>
</tbody>
</table>

---

1. Data for illustrative purposes only
2. Reflected as profit on disposal of joint ventures or dividends received from joint ventures
## Free cashflow

<table>
<thead>
<tr>
<th></th>
<th>6 months to 31 Dec 2017 (£m)</th>
<th>6 months to 31 Dec 2016 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying operating profit</td>
<td>60.0</td>
<td>57.3</td>
</tr>
<tr>
<td>Depreciation &amp; amortisation</td>
<td>14.5</td>
<td>13.3</td>
</tr>
<tr>
<td><strong>Underlying EBITDA</strong></td>
<td><strong>74.5</strong></td>
<td><strong>70.6</strong></td>
</tr>
<tr>
<td>JV dividends less share of profits</td>
<td>29.2</td>
<td>(5.0)</td>
</tr>
<tr>
<td>Working capital movement</td>
<td>(56.3)</td>
<td>(15.4)</td>
</tr>
<tr>
<td>Capex</td>
<td>(37.8)</td>
<td>(30.4)</td>
</tr>
<tr>
<td>Net interest</td>
<td>(10.2)</td>
<td>(9.2)</td>
</tr>
<tr>
<td>Tax</td>
<td>0.2</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Pension</td>
<td>(14.5)</td>
<td>(15.7)</td>
</tr>
<tr>
<td>Non-underlying</td>
<td>(15.0)</td>
<td>24.5</td>
</tr>
<tr>
<td>All other movements</td>
<td>(0.9)</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td><strong>(30.8)</strong></td>
<td><strong>22.5</strong></td>
</tr>
<tr>
<td>Net investment in joint ventures</td>
<td>(35.3)</td>
<td>(74.9)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(44.4)</td>
<td>(27.7)</td>
</tr>
<tr>
<td>Acquisitions and disposals</td>
<td>(17.9)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Change in Net debt</strong></td>
<td><strong>(128.4)</strong></td>
<td><strong>(80.1)</strong></td>
</tr>
<tr>
<td>Opening Net debt(^1)</td>
<td>(110.1)</td>
<td>(98.8)</td>
</tr>
<tr>
<td>Closing Net debt(^1)</td>
<td>(238.5)</td>
<td>(178.9)</td>
</tr>
</tbody>
</table>

\(^1\)Net debt is shown net of the impact of hedging instruments.
### Kier Strategic Highways - current contracts

<table>
<thead>
<tr>
<th>Local authority planned and reactive maintenance contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Surrey</td>
</tr>
<tr>
<td>- Suffolk</td>
</tr>
<tr>
<td>- Lincolnshire</td>
</tr>
<tr>
<td>- Northamptonshire</td>
</tr>
<tr>
<td>- Torbay</td>
</tr>
<tr>
<td>- Transport for London (South Area)</td>
</tr>
<tr>
<td>- London Boroughs (Croydon, Harrow, Kingston)</td>
</tr>
<tr>
<td>- Shropshire (commencing 1/4/18)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Area</th>
<th>Duration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area 3</td>
<td>2018 – in negotiation for 3 year extension</td>
</tr>
<tr>
<td>Area 6</td>
<td>2019</td>
</tr>
<tr>
<td>Area 7 (design services)</td>
<td>2021</td>
</tr>
<tr>
<td>Area 8</td>
<td>2019</td>
</tr>
<tr>
<td>Area 9</td>
<td>2019 – in negotiation for 3 year extension</td>
</tr>
<tr>
<td>Area 13</td>
<td>2032</td>
</tr>
<tr>
<td>South West (design services)</td>
<td>2022</td>
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</table>
Our risk management gateway process
Controls and intervention points

<table>
<thead>
<tr>
<th>EXTERNAL PRE-QUAL</th>
<th>STAGE 1</th>
<th>STAGE 2</th>
<th>DELIVERY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Screened and risk based bidding process</td>
<td>Emphasis on lower risk contracts</td>
<td>Mandatory focus on cash flow</td>
<td>Continual focus on project “End Life” performance</td>
</tr>
</tbody>
</table>

**Project Stage**
- Pipeline and PQQ Filter / Selection
- Permission to Tender
- Prepare Tender
- Formal Adjudication
- Negotiation to Award
- Handover & Mobilise
- Execution Commencing
- Handover
- Defects Visibility Period

**Controls Environment**
- Pre Contract
  - Operated to strict risk and value governance regime, comprising:
    - Formal risk screening for contracts
    - Group Risk Review and Tender Committee
- Post Contract
  - Formal operation of controls and intervention points:
    - Monthly project reviews process
Strong UK regional presence