Chairman's introduction

"As a board, we believe that good governance will support the delivery of the Group's strategy."

Dear shareholder,
As a board, we believe that good governance will support the delivery of the Group's strategy and is essential to the way in which the business operates on a day-to-day basis. Some examples of the Board's governance role are set out on page 47.

In this part of the Annual Report, we describe governance at Kier, the principal activities of the Board and its committees throughout the year and how we have complied with the UK Corporate Governance Code (September 2014 edition) (the Code). A full version of the Code can be found on the Financial Reporting Council's website: http://www.frc.org.uk.

People and culture
As members of the Board, we play an important role in setting the Group's culture, which is in turn supported by the Group's core values. In doing so, it is important to lead by example: during the year, as a board, we have continued to manage the Group's growth closely, in light of some challenging market conditions.

It is also important that the Board has appropriate visibility of the business and, during the year, members of the Board have visited a number of the Group's sites, which has been useful in continuing to develop our understanding of the business.

Leadership
Our Board is collectively responsible for the long-term success of the Group, for developing and delivering its strategy and for establishing a framework of controls to assess and manage risk effectively. A summary of the Board's governance framework is set out on page 50.

It is, therefore, very important that the Board has a range of skills and experience which challenges, motivates and supports the business. The skills and experience of the Executive Directors are balanced by those of the Non-Executive Directors, who bring significant experience from other organisations and sectors. Please see pages 52 and 53 for the Directors' biographies.

During the year, we appointed Justin Atkinson and Adam Walker as Non-Executive Directors and, with effect from 1 July 2016, Constance Baroudel also joined as a Non-Executive Director. Each of these individuals has settled in well to their role. In our preliminary results statement, we announced that the Chair of the Remuneration Committee, Amanda Mellor, has decided not to stand for re-election at the Annual General Meeting (AGM) on 18 November. Subject to her election as a Director at the AGM, Constance will take over the role of Chair of the Remuneration Committee from the conclusion of the meeting. During the year, Richard Bailey also stood down from the Board. I would like to thank both Richard and Amanda for their contributions during their time on the Board.

Effectiveness
Kier has grown significantly in recent years, principally as a result of the acquisitions of May Gurney and Mouchel. It is important that we continue to manage this growth effectively.

We made reasonable progress in most areas of the action plan which we agreed following the 2015 Board evaluation process, as described on page 54. One of the key areas of focus has been succession planning at Board level and immediately below. In addition to the appointments of Justin, Adam and Constance, the Board and the Nomination Committee reviewed the pipeline of potential future Executive Directors. This will continue to be an area of focus during the 2017 financial year. Improvements to the search, selection and succession planning process for Non-Executive Directors and the process for reviewing executive remuneration, and setting and measuring performance targets, were also identified as areas of focus for the year ahead.

Accountability
The Board understands our responsibility to present a fair, balanced and understandable assessment of the Group's position and prospects in this Annual Report, to assess the principal risks facing the Group, to ensure that effective systems of risk management and internal control are in place and to provide a statement as to the Group's long-term viability. The steps that we have taken during the year to comply with these requirements can be found in this section of the Annual Report.

Remuneration
We were pleased to have received 98.50% of votes in favour of our Remuneration Report at the 2015 AGM, following 88.52% of votes in favour in 2014.

During the summer of 2016, we consulted with shareholders with respect to the Executive Directors' remuneration for the 2017 financial year. We were grateful to shareholders for the level of engagement and their positive feedback.

Our current remuneration policy remains unaltered. We will engage with shareholders next year with respect to a revised policy for approval at the 2017 AGM.

Relations with shareholders
As Chairman, I welcome the opportunity to meet shareholders and my discussions with them during the year on a variety of matters have helped me to keep the Board informed about their issues and concerns.

During the year, our Senior Independent Director, Justin Atkinson, met major shareholders to understand their views and our Remuneration Committee Chair, Amanda Mellor, also met a number of shareholders to discuss the proposals for the Executive Directors' remuneration.

Phil White
Chairman of the Board

21 September 2016

Governance in action

Strategic priority	The Board's governance role	What we achieved in 2016
Operate a safe and sustainable business	The Board, together with the Safety, Health and Environment Committee, oversees the framework within which the Group manages safety, health and environmental risks.	• Oversaw a significant reduction in the Group's reportable accident incidence rate (AIR) from 319 to 211. • Led the culture of 'visible leadership' on safety matters, with regular site visits by members of the Board during the year. • Oversaw the effective integration of Mouchel's SHE risk management policies and procedures.
Accelerate growth to be a top three player in our chosen markets	The Board approves the Group's strategy, reviews subsequent progress and makes decisions to support the delivery of this strategy.	• Reviewed progress against Vision 2020, with a comprehensive review conducted in October 2015. • Oversaw the effective integration of Mouchel. • Announced the proposed simplification of the Group's portfolio to enable greater focus on its principal businesses.
Achieve top quartile performance and efficiency	The Board sets operational and financial targets and reviews performance by the Group's businesses.	• Introduced a set of formal key performance indicators (KPIs) by which each business unit's performance is measured. • Oversaw the review of central and business overheads to drive efficiency across the Group. • Oversaw a rigorous and disciplined approach to working capital management.
Provide sector-leading customer experience, for clients and for their customers	The Board, via management, oversees the delivery of services to customers and reviews and challenges reports which provide details of customer feedback.	• Oversaw the introduction of a comprehensive client relationship management programme. • Oversaw the inclusion of customer satisfaction surveys as a KPI to measure business units' performance. • Encouraged active measurement of client satisfaction by the business.
Attract and retain highly motivated, high-performing teams	The Board, together with the Nomination Committee, reviews the pipeline of potential talent at senior level and challenges management to ensure that the Group is appropriately resourced.	• Reviewed management's plan to re-design the Group's HR policies and procedures. • The Nomination Committee discussed the Executive Director succession plan. • Discussed appointments to senior positions within the business.
Ensure that the business is supported by investment in technology and back-office systems	The Board challenges management to ensure that the Group's technology and back-office systems are adequate to support the Group's plans for future growth.	• Regularly reviewed progress in relation to the introduction of the new enterprise resource planning (ERP) system. • Approved the creation of a single finance shared services centre. • Reviewed the specific risks relating to cyber security, with the input of the Chief Information Officer.

Board statements

Under the Code, the Board is required to make a number of statements. These statements are set out in the following table:

Requirement	Board statement	Where to find further information
Compliance with the Code	The Directors confirm that, throughout the 2016 financial year, the Company complied with the provisions of the Code, except as described below, and continued to apply the main principles of the Code.	'Application of the main principles of the Code' on page 49. 'Compliance with the provisions of the Code' below.
Going concern basis	The Directors are satisfied that the Group has sufficient financial resources to continue operating in the foreseeable future and, therefore, have adopted the going concern basis in preparing the Group's 2016 financial statements.	Financial review on pages 40 to 45 (inclusive). Strategic Report on pages 1 to 45 (inclusive). Principal risks and uncertainties on pages 27 to 31 (inclusive). 'Going concern' in the Risk Management and Audit Committee report on page 60.
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 30 June 2019, taking into account the Group's current position and the potential impact of the principal risks and uncertainties set out on pages 27 to 31 (inclusive). The Directors have a reasonable expectation that the Group will continue in operation and meet its liabilities as they fall due over this period.	Principal risks and uncertainties on pages 27 to 31 (inclusive). 'Systems of risk management and internal control' in 'Accountability' on page 58. 'Board statements – Viability statement' in the Risk Management and Audit Committee report on pages 60 and 61.
Robust assessment of the principal risks facing the Group	The Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Directors also assessed, with respect to each such risk, its appetite and considered the systems required to mitigate and manage such risks.	Principal risks and uncertainties on pages 27 to 31 (inclusive). 'Assessment of principal risks' in 'Accountability' on page 58.
Annual review of systems of risk management and internal control	During the 2016 financial year, the Board regularly monitored the Group's systems of risk management and internal control, via the Risk Management and Audit Committee (the RMAC), and carried out a review of their effectiveness. The conclusion was that, overall, these systems were effective.	'Systems of risk management and internal control – Effectiveness review' in the Risk Management and Audit Committee report on page 60.
Fair, balanced and understandable	The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.	'Board statements – Fair, balanced and understandable' in the Risk Management and Audit Committee report on page 60.

Compliance with the provisions of the Code
In our 2015 Annual Report, we identified four items of non-compliance with the provisions of the Code during the 2015 financial year. During the 2016 financial year, this has reduced to one item. Code provision B.2.3 requires all Non-Executive Directors to be appointed for specified terms: although Adam Walker and Constance Baroudel were each appointed for an initial term of three years, none of the other Non-Executive Directors has been appointed for a specified term. However, each Non-Executive Director's letter of appointment contains a notice period of one month (either way) and his/her appointment is subject to annual re-election and to statutory provisions relating to the removal of directors. The Company's current policy is that all Directors, including the Non-Executive Directors, will be subject to annual re-election at the Company's AGM and that, in the future, all Non-Executive Directors will be appointed for an initial three-year term.

Application of the main principles of the Code

During the 2016 financial year, the Company continued to apply the main principles of the Code, as follows:

A. Leadership

A1 The Board's role The Board met formally 10 times during the year. There is a clear schedule of matters reserved for the Board, together with delegated authorities which are used throughout the Group.

A2 A clear division of responsibilities The roles of the Chairman and Chief Executive are clearly defined. Phil White, the Chairman, is responsible for the leadership and effectiveness of the Board. Haydn Mursell, the Chief Executive, is responsible for leading the day-to-day management of the Group within the strategy set by the Board.

A3 Role of the Chairman The Chairman sets the agendas for Board meetings, manages the meetings (in conjunction with the Company Secretary) and facilitates open and constructive dialogue during them.

A4 Role of the Non-Executive Directors The Chairman promotes an open and constructive environment in the boardroom and actively invites the Non-Executive Directors' views. The Non-Executive Directors provide objective, rigorous and constructive challenge to management and meet regularly in the absence of the Executive Directors.

C. Accountability

C1 Financial and business reporting The Board has established arrangements to ensure that reports and other information published by the Group are fair, balanced and understandable. The Strategic Report is set out on pages 1 to 45 (inclusive) and this provides information about the performance of the Group, the business model, the Group's strategy and the risks and uncertainties relating to the Group's future prospects.

C2 Risk management and internal control systems The Board sets the Group's risk appetite and annually reviews the effectiveness of the Group's risk management and internal control systems. The activities of the RMAC, which assists the Board with its responsibilities in relation to the management of risk, are summarised on pages 59 to 62 (inclusive).

C3 Role and responsibilities of the Risk Management and Audit Committee The Board has delegated a number of responsibilities to the RMAC, which is responsible for overseeing the Group's financial reporting processes, internal control and risk management framework and the work undertaken by the external auditor.

B. Effectiveness

B1 The Board's composition The Nomination Committee is responsible for regularly reviewing the composition of the Board. In making appointments to the Board, the Nomination Committee considers the range of skills, knowledge and experience required in order to maintain an effective board.

B2 Board appointments The appointment of new Directors is led by the Nomination Committee. Further details of the activities of the Nomination Committee can be found on pages 56 and 57.

B3 Time commitments On appointment, Directors are notified of the time commitment expected from them which, in practice, goes beyond that set out in their letter of appointment. External directorships, which may affect existing time commitments, must be agreed with the Chairman.

B4 Induction, training and development All Directors receive an induction on joining the Board. Training is made available to members of the Board in accordance with their requirements.

B5 Provision of information and support The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive accurate and timely information.

B6 Board and committee performance evaluation During the 2016 financial year, the Board undertook an evaluation of its own performance. Details of the evaluation can be found on page 55.

B7 Re-election of Directors All Directors were subject to shareholder election or re-election at the 2015 AGM, as will be the case at the 2016 AGM (other than Amanda Mellor).

D. Remuneration

D1 Levels and elements of remuneration The Remuneration Committee sets levels of remuneration which are designed to promote the long-term success of the Group and structures remuneration so as to link it to both corporate and individual performance, thereby aligning management's interests with those of shareholders.

D2 Development of remuneration policy and packages Details of the activities of the Remuneration Committee can be found in the Remuneration Report on pages 66 to 85 (inclusive).

E. Relations with shareholders

E1 Shareholder engagement and dialogue The Board takes an active role in engaging with shareholders. The Board particularly values opportunities to meet with shareholders and the Chairman ensures that the Board is kept informed about shareholders' views.

E2 Constructive use of the AGM The AGM provides the Board with an important opportunity to meet with shareholders, who are invited to meet the Board following the formal business of the meeting.

Leadership

Highlights

- **Further strengthening of the Board, through new appointments**
- **Good progress made against Vision 2020 objectives**
- **Successful integration of Mouchel**
- **Further reduction in the Group's accident incidence rate (AIR)**

The Board
The Board is responsible for the effective leadership of the Group. The Board's governance framework, which is summarised below, establishes a clear division of responsibilities on the Board.

The diverse range of skills and leadership experience of the Non-Executive Directors enables them to monitor performance, provide constructive challenge and support the Executive Directors. Biographical details of each of the Directors are set out on pages 52 and 53.

A summary of the Board's governance framework is shown below.

Board composition
As at 30 June 2016, the Board comprised the Chairman, five Executive Directors and five Non-Executive Directors.

During the year:

- Justin Atkinson was appointed to the Board with effect from 1 October 2015 and as the Senior Independent Director with effect from 16 March 2016;
- Adam Walker joined the Board as a Non-Executive Director, and as the Chair of the RMAC, with effect from 1 January 2016; and
- Richard Bailey retired from the Board, and as Chair of the RMAC and the Senior Independent Director, with effect from 31 January 2016.

On 29 June 2016, we announced that Constance Baroudel would join as a new Non-Executive Director with effect from 1 July 2016.

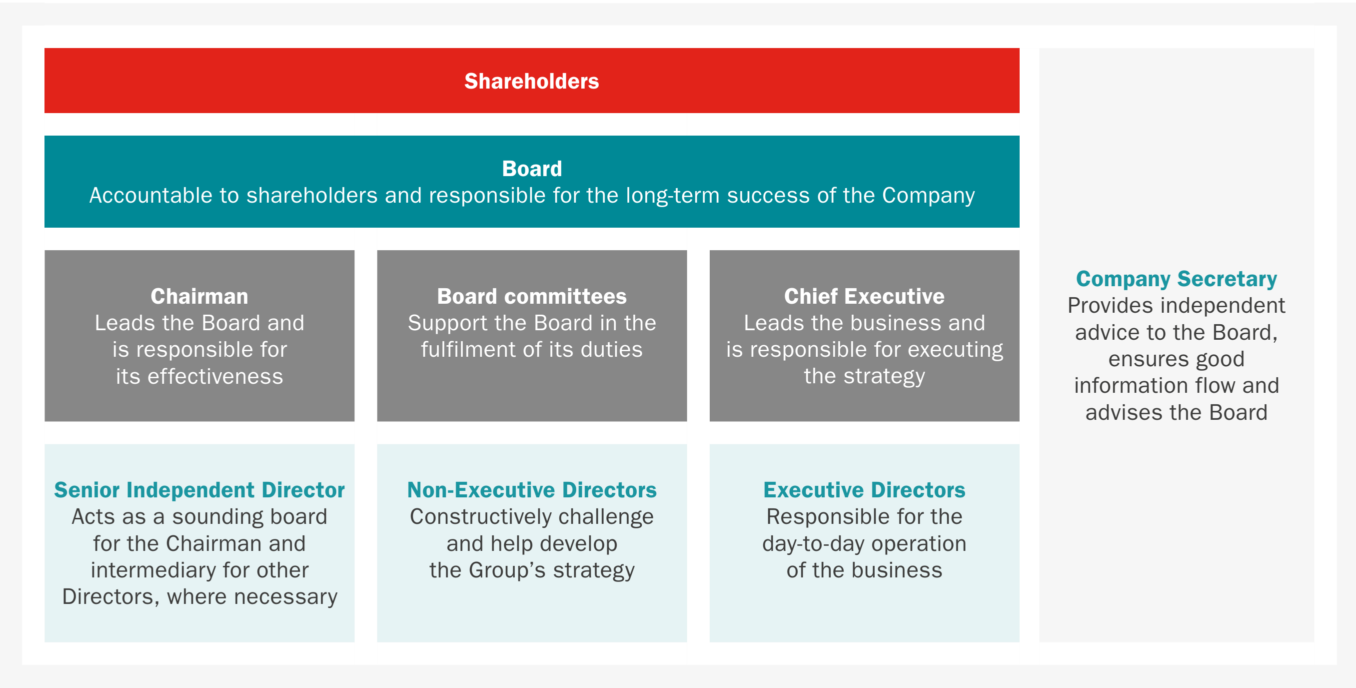
Amanda Mellor will not be standing for re-election at the AGM on 18 November 2016. Constance Baroudel will, subject to her election as a Director at that meeting, take over the role of Chair of the Remuneration Committee with effect from the conclusion of the AGM.

Key activities of the Board
The decisions which can only be made by the Board are clearly defined in the schedule of matters reserved for the Board. The full schedule of matters reserved for the Board is available on the Company's website at http://www.kier.co.uk/corporategovernance.

The matters requiring Board approval include, amongst others:

- The Group's strategy;
- Mergers, acquisitions and disposals of a material size and nature;
- Material changes to the Group's structure and capital;
- The payment of dividends;
- The approval of material Group policies; and
- Material contract tenders and material investments.

The Board has delegated certain responsibilities to its committees. The terms of reference for each committee are available on the Company's website at http://www.kier.co.uk/corporategovernance. The principal activities of each of these committees during the year are set out in their respective reports in this Annual Report (and, where so required by applicable regulation, are incorporated by reference into this Corporate Governance Statement).



Key Board discussions and activities
A summary of the Board's key discussions and activities during the year is set out in the following table:

Topic	Discussions/activity
• Safety, financial and operational performance	• Reviewed reports on safety, financial and operational performance • Reviewed reports on financial performance, working capital management and forecasts • Approved forecasts and budgets
• Strategy, leadership and governance	• Reviewed progress against Vision 2020 • Reviewed the integration of Mouchel • Appointed new Directors and discussed succession planning • Discussed feedback from meetings of the Board's committees • Considered the evaluation of the Board and its committees
• Financial statements, systems of risk management and internal control	• Approved the 2015 Annual Report and 2016 interim results • Approved the 2015 final dividend and 2016 interim dividend • Considered reports from the Chair of the RMAC on systems of risk management and internal control • Considered risk management procedures and key risks and uncertainties facing the Group
• Relations with shareholders	• Considered matters relating to the 2015 AGM • Reviewed feedback from investors following results presentations or meetings with Board members

Board and committee meeting attendance
Board and committee meetings are typically held at Tempsford Hall, in London or at one of the Group's regional offices or sites. For example, the August 2015 meeting was held at the Speke office and, following the April 2016 meeting, the Board visited two of the Group's London projects.

The number of Board and committee meetings attended by each Director during the 2016 financial year is as follows:

Director	Board[1]	Nomination Committee[1]	Remuneration Committee	Risk Management and Audit Committee	Safety, Health and Environment Committee	Overall attendance
Justin Atkinson[2]	8/8	2/2	4/4	3/3	3/3	100%
Richard Bailey[3]	5/5	1/1	2/3	2/2	–	91%
Kirsty Bashforth	10/10	2/2	6/6	5/5	4/4	100%
Nigel Brook	10/10	–	–	–	–	100%
Bev Dew	10/10	–	–	–	–	100%
Amanda Mellor[4]	10/10	2/2	6/6	4/5	3/4	93%
Haydn Mursell	10/10	–	–	–	–	100%
Nigel Turner	10/10	–	–	–	–	100%
Claudio Veritiero	10/10	–	–	–	–	100%
Adam Walker[5]	5/5	1/1	3/3	3/3	–	100%
Phil White[6]	9/10	2/2	5/6	–	–	89%
Nick Winser	10/10	2/2	6/6	5/5	4/4	100%

1 Additional Board and Nomination Committee meetings were held during the year specifically to appoint Non-Executive Directors.
2 Justin Atkinson was appointed to the Board with effect from 1 October 2015.
3 Richard Bailey retired from the Board with effect from 31 January 2016.
4 Amanda Mellor was unable to attend the Safety, Health and Environment Committee and RMAC meetings in June 2016, due to prior business commitments.
5 Adam Walker was appointed to the Board with effect from 1 January 2016.
6 Phil White was unable to attend the Board and Remuneration Committee meetings in August 2015 due to ill-health.

Board of Directors
The right mix of skills and experience

Phil White CBE (66)
Chairman
Date appointed to Board/as Chairman: July 2006/January 2008
Tenure on Board: 10 years, 2 months
Independent: Yes
Committee memberships:
1 2
Relevant skills and experience:
- A chartered accountant with substantial operational and commercial experience, particularly within the transport and contracting sectors
- Significant listed company board experience gained in executive and non-executive roles
- Formerly Chief Executive of National Express Group from 1997 to 2006 and a non-executive director of Stagecoach Group from 2010 to 2016
- Experienced in mergers and acquisitions and strategy development

Principal current external appointments:
- Chairman, Lookers
- Chairman, The Unite Group
- Non-Executive Director, Vp

Haydn Mursell (45)
Chief Executive
Date appointed to Board/as Chief Executive: November 2010/July 2014
Tenure on Board: 5 years, 10 months
Independent: No
Committee memberships:
None
Relevant skills and experience:
- A chartered accountant, having trained and qualified at KPMG
- Significant sector experience through previous senior finance roles at Balfour Beatty and Bovis Lend Lease
- Operational leadership experience gained through previous responsibility for the Property division
- Detailed knowledge of the Group gained through previous role as Finance Director, in particular
- Strong track record in mergers and acquisitions, both at Kier and in previous organisations

Principal current external appointments:
None

Bev Dew (45)
Finance Director
Date appointed to Board: January 2015
Tenure on Board: 1 year, 8 months
Independent: No
Committee memberships:
None
Relevant skills and experience:
- A chartered accountant, having trained and qualified at Coopers & Lybrand
- Twenty years' experience in the construction industry, with previous senior finance roles at Balfour Beatty, Lendlease, Redrow and Invensys Rail
- Significant experience in finance and capital structures
- Strong track record in cost control, cash flow management and pension scheme risk management
- Recent experience of ERP and other systems implementation programmes

Principal current external appointments:
None

Nigel Brook (58)
Executive Director – Construction and Infrastructure Services
Date appointed to Board: March 2015
Tenure on Board: 1 year, 6 months
Independent: No
Committee memberships:
None
Relevant skills and experience:
- A chartered quantity surveyor and a member of the Royal Institution of Chartered Surveyors
- Over 35 years' experience in the construction sector, having previously held roles at AMEC, Ballast and Miller Construction
- Significant experience in management and delivery of large and complex projects throughout the UK
- Strong track record of customer service and operational performance improvement
- Strong track record on health and safety matters

Principal current external appointments:
None

Nigel Turner (51)
Executive Director – Developments, Property and Business Services
Date appointed to Board: March 2015
Tenure on Board: 1 year, 6 months
Independent: No
Committee memberships:
None
Relevant skills and experience:
- A chartered surveyor and a member of the Royal Institution of Chartered Surveyors
- Detailed knowledge of the property development sector, in particular
- Significant commercial and transactional experience, having negotiated a large number of investments and other projects in his career
- Detailed knowledge of the Group's business units, in particular through their interaction with the Property division
- Experienced in dealing with lenders, joint venture partners and other key stakeholders

Principal current external appointments:
None

Claudio Veritiero (43)
Group Strategy and Corporate Development Director
Date appointed to Board: March 2015
Tenure on Board: 1 year, 6 months
Independent: No
Committee memberships:
None
Relevant skills and experience:
- Significant experience of a wide variety of corporate transactions during early part of career in investment banking at Rothschild
- Previous listed company board experience as an executive director of Speedy Hire
- Operational leadership experience within Kier through previous role as managing director of the Services division
- Strong record in mergers and acquisitions, both at Kier and in previous roles

Principal current external appointments:
None

Board committees key:

1 Nomination Committee
2 Remuneration Committee
3 Risk Management and Audit Committee
4 Safety, Health and Environment Committee
Chair

Justin Atkinson (55)
Senior Independent Director

Date appointed to Board: October 2015
Tenure on Board: 11 months
Independent: Yes
Committee memberships:
1 2 3 4

Relevant skills and experience:
- A chartered accountant, having trained and qualified at Deloitte Haskins & Sells (now part of PwC)
- Formerly Chief Executive of Keller from 2004 to 2015
- Significant operational and financial experience, having also been Keller's Group Finance Director and Chief Operating Officer
- In-depth knowledge of the construction sector, both in the UK and internationally

Principal current external appointments:
- Senior Independent Director and Chair of the Audit Committee of Forterra
- A member of the Audit Committee of the National Trust

Kirsty Bashforth (46)
Non-Executive Director

Date appointed to Board: September 2014
Tenure on Board: 2 years
Independent: Yes
Committee memberships:
1 2 3 4

Relevant skills and experience:
- Significant experience in organisational effectiveness, principally through her previous role as Group Head of Organisational Effectiveness at BP
- Founder and CEO of Quayfive, which advises on organisational culture
- In-depth global, commercial, safety and risk management and operational experience
- Strong track record of driving group-wide development and change programmes
- A wide range of experience in a variety of human capital areas, including engagement, diversity and ethical working practices

Principal current external appointments:
- Governor at Leeds Beckett University (Finance, Staffing & Resources Committee, Governor Champion – Equality & Diversity)
- A member of the steering committee of the Balanced Business Forum
- Governor, Ashville College

Amanda Mellor (52)
Non-Executive Director

Standing down following the AGM on 18 November 2016

Date appointed to Board: December 2011
Tenure on Board: 4 years, 9 months
Independent: Yes
Committee memberships:
1 2 3 4

Relevant skills and experience:
- A Fellow of the Institute of Chartered Secretaries and Administrators
- A strong track record in governance, through her role at Marks & Spencer
- Detailed knowledge in the design and implementation of employee and executive remuneration
- Considerable experience in investor relations and communications
- Practical experience of risk management and internal control best practice

Principal current external appointments:
- Group Secretary and Head of Corporate Governance, Marks & Spencer
- Member of the Council and Remuneration Committee, University of Leeds
- Visiting Professor in Business and Professional Ethics, University of Leeds

Adam Walker (48)
Non-Executive Director

Date appointed to Board: January 2016
Tenure on Board: 8 months
Independent: Yes
Committee memberships:
1 2 3

Relevant skills and experience:
- A chartered accountant, having trained and qualified at Touche Ross (now part of Deloitte)
- A wealth of experience in financial matters, having been a finance director at three listed companies
- Operational experience through his role as Chief Executive of GKN Land Systems
- Detailed knowledge of systems of risk management and internal control, obtained through previous and current executive roles

Principal current external appointments:
- Group Finance Director of GKN PLC
- Chief Executive of GKN Land Systems

Nick Winser CBE (56)
Non-Executive Director

Date appointed to Board: March 2009
Tenure on Board: 7 years, 6 months
Independent: Yes
Committee memberships:
1 2 3 4

Relevant skills and experience:
- A chartered engineer and a Fellow of the Royal Academy of Engineering
- Significant experience of the energy sector, principally through his role as a member of the board of directors of National Grid from 2003 to 2014
- Experienced in dealings with regulators and Government
- A strong track record on health and safety and risk management through his role with National Grid

Principal current external appointments:
- Chairman of the Energy Systems Catapult
- Deputy President of the Institution of Engineering and Technology
- Chairman of the Power Academy
- Vice-Chair of the MS Society
- Director of Way Ahead Support Services charity

Constance Baroudel (42)
Non-Executive Director

Appointed from 1 July 2016

Date appointed to Board: July 2016
Tenure on Board: 2 months
Independent: Yes
Committee memberships:
1 2 3 4

Relevant skills and experience:
- Significant experience of accounting and financial matters through a number of senior management roles
- In-depth knowledge of operational performance and delivery matters
- Recent experience of developing corporate strategy through her current role at First Group plc (see below)
- Previous experience as Chair of the Remuneration Committee at Synergy Health PLC

Principal current external appointments:
- Group Director of Strategy and Operational Performance, First Group plc

Effectiveness

Highlights

- **Successful induction of new Non-Executive Directors**
- **Launch of training programme for Board members**
- **Completion of all actions from 2015 Board evaluation**
- **Greater focus on executive and senior management succession planning**

Time commitment

The Executive Directors may serve on other boards of directors, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company. The major commitments of the Directors are outlined on pages 52 and 53.

The Nomination Committee remains satisfied that all Non-Executive Directors have sufficient time to meet their commitments to the Company and that the Chairman's other commitments do not interfere with the performance of his day-to-day duties to the Company.

Induction and development

Details of inductions of recently appointed Directors are set out in the Nomination Committee report on page 67.

During the year, the Board also received briefings from the Company's external advisers on changes to legislation, regulation or market practice. For example, during the year, the Board received briefings on the latest developments in SHE regulation and on cyber security from the Chief Information Officer.

Directors are also encouraged to continue to update their skills and knowledge and to ensure that they are aware of developments in market practice.

A programme of courses is made available to the Directors, who are encouraged to attend courses which they consider to be of relevance to their roles.

Information and support

The Board is provided with regular and timely information on the Group's operational and financial performance, together with reports on trading, the markets, health and safety and other matters.

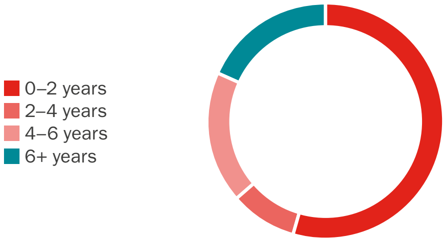
The Company Secretary is the secretary to the Board and each of its committees. Prior to each Board or committee meeting, the Company Secretary ensures that the relevant papers are made available, via a secure electronic portal, five working days in advance of the meeting. All Directors have access to the services of the Company Secretary and may take independent professional advice at the expense of the Company.

Re-election of Directors

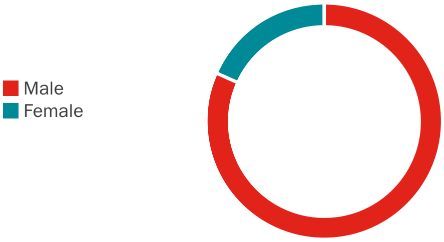
As it is the first AGM since their appointments, resolutions will be proposed to elect Adam Walker and Constance Baroudel as Directors at the AGM on 18 November 2016. All other Directors, other than Amanda Mellor who will retire from the Board with effect from the conclusion of the meeting, will offer themselves for re-election at the AGM.

Following the 2016 evaluation of the Board's performance, the performance of each of the Non-Executive Directors is considered to be effective and they are each considered to demonstrate appropriate commitment to the role. Nick Winser has served as a Director for over seven years. Since there have been a number of recent appointments to the Board, and taking into account Nick's experience in SHE matters (as a former executive director of National Grid), the Board considers it appropriate to propose Nick for re-election.

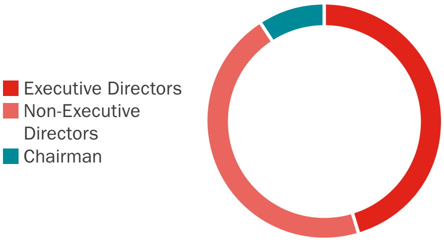
Board tenure



Board balance



Board composition



2015 Board performance evaluation

We have made reasonable progress against the areas of focus identified in the 2015 evaluation, as demonstrated by the following table:

Area of focus	Progress made
Set aside sufficient time for formal discussions about strategy at Board meetings	• Quarterly updates provided to the Board • Comprehensive review of strategy at the October 2015 Board meeting
Ensuring that the Group's systems of risk management and internal control support its continued growth	• Significant progress made on the implementation of the ERP system • Implementation of all material recommendations from a review of the Group's key financial controls
Increasing the focus on formal succession planning	• Appointment of a new Group HR Director and Head of Talent and Organisational Development • Nomination Committee meeting in May 2015 to review the executive management talent pipeline
Continued focus on Board and committee administration	• Continuous review of Board papers to ensure that high-quality information is provided • Debriefs held after Board meetings to ensure continuous improvement in administration

2016 Board performance evaluation

The 2016 evaluation was led by the Chairman, with the assistance of the Company Secretary. The evaluation focused on a number of key areas:

- The skills and experience of the Board
- Meetings and Board administration
- The effectiveness of the Board's decision-making
- The Board's role with respect to the Group's strategy
- The Board's management of risk
- The Board's engagement with key stakeholders, including shareholders and employees
- The operation of the Board's committees

The process was divided into four stages:

Stage 1

Completion of questionnaire

A comprehensive questionnaire was sent to each Board member. Board members completed and returned the questionnaire to the Company Secretary.

Stage 2

Evaluation of responses/reporting

The Company Secretary compiled a report based on the feedback provided by Board members, addressing the performance of the Board and each of its committees.

Stage 3

Initial discussions with the Chairman and then the Board

The Company Secretary and the Chairman discussed the draft conclusions. Subsequently, these conclusions and a draft action plan were discussed by the Board at its meeting in August 2016. The Board approved the action plan.

Stage 4

Feedback to individual Directors

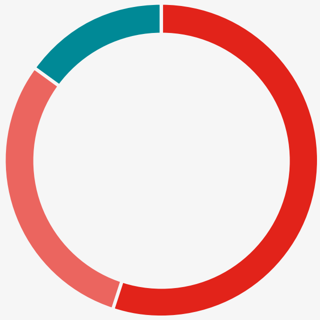
The Senior Independent Director met the other Non-Executive Directors to discuss the Chairman's performance and then met the Chairman to provide collective feedback. The Chairman provided feedback to individual Directors.

The 2016 evaluation confirmed that, overall, the Board and its committees are making reasonable progress. However, certain improvements to the operation of the Nomination and Remuneration Committees were highlighted, as referred to on page 46. A summary of the Board's key strengths and its principal areas of focus for 2017, as identified by the evaluation, is as follows:

Key strengths	Principal areas of focus for 2017
• The new Executive Directors appointed in 2015 have settled in well	• Improving the search, selection and succession planning process for Non-Executive Directors. Continuing the good progress made with respect to executive and senior management succession planning
• A healthy and robust debate is held at Board meetings	• Ensuring that the Group's management of risk remains appropriate in light of its growth
• The Board sets aside time for in-depth discussions about strategy	• Reviewing/refreshing Vision 2020
• The Board has increased its focus on formal executive and senior management succession planning	• Continuous review of the information provided to the Board, so as to ensure that decisions can continue to be made effectively

Nomination Committee report

Nomination Committee – allocation of time (%)



Dear shareholder,
I am pleased to present the Nomination Committee report for 2016.

This report provides a summary of the Committee's activities during 2016. I will be available to answer any questions about the Committee and how it operates at the AGM on 18 November 2016.

Role
The role of the Committee includes:

- Regularly reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes;
- Evaluating the balance of skills, knowledge, experience and diversity on the Board; and
- Considering succession planning for the Board and other senior executives, taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future.

The terms of reference for the Committee can be viewed on the Company's website at http://www.kier.co.uk/corporategovernance.

Composition and meeting attendance
The members of the Committee at 30 June 2016 were:

- Phil White (Chair)
- Justin Atkinson
- Kirsty Bashforth
- Amanda Mellor
- Adam Walker
- Nick Winser

At the invitation of the Committee, any other Director may attend meetings of the Committee. In addition, during the year, the Group HR Director and the Group Head of Talent and Organisational Development attended to discuss succession planning. The secretary of the Committee is the Company Secretary.

Details of attendance at Committee meetings during the 2016 financial year are set out on page 51.

Principal activities – 2016 financial year
A summary of the Committee's principal activities in the 2016 financial year is as follows:

Review of Board composition
During the year, we reviewed the Board's composition to ensure that it has the correct balance of skills, experience and knowledge following recent significant acquisitions and in light of the Group's plans for future growth. Members of the Board have many years of experience obtained through their senior management roles within various organisations. The table on page 57 indicates certain of the areas of particular expertise of the Non-Executive Directors, complementing the skills and experience of the Executive Directors.

We concluded that Bev Dew, Nigel Brook, Nigel Turner and Claudio Veritiero, each of whom was appointed to the Board during the 2015 financial year, had settled in well to their respective roles.

The Committee previously identified a need to appoint a Non-Executive Director who had recent or current executive experience, had worked in contracting (or similar) businesses and had experience of managing a business with international operations. Justin Atkinson was identified by Russell Reynolds Associates (Russell Reynolds) as a candidate. Justin was considered to have the appropriate range of skills and was appointed to the Board with effect from 1 October 2015. The Committee was satisfied that, when providing its advice, Russell Reynolds did not have any other connections with the Company.

We also concluded that the Board would benefit from the appointment of another Non-Executive Director with recent or current executive experience. All the Non-Executive Directors were asked to recommend potential candidates for the role. Adam Walker was identified through this process. As Chairman of the Board and of the Nomination Committee, I declared that I had previously worked together with Adam and, accordingly, Odgers Berndtson (Odgers) was appointed to evaluate his suitability for the role.

Following this evaluation, Adam was interviewed by members of the Nomination Committee and a recommendation was made to the Board that, as the Finance Director of GKN and the Chief Executive of GKN Land Systems, Adam's skills and experience would complement those of the other members of the Board. Adam was appointed to the Board with effect from 1 January 2016. Since his appointment to the Board, Adam has provided rigorous and constructive challenge in Board and committee meetings.

Upon Richard Bailey's retirement from the Board in January 2016, Adam was appointed as the Chair of the Risk Management and Audit Committee and, subsequently, Justin was appointed as the Senior Independent Director, reflecting his positive contribution to the Board since appointment.

Area of particular expertise	Phil White	Justin Atkinson	Constance Baroudel	Kirsty Bashforth	Amanda Mellor	Adam Walker	Nick Winser
Culture, ethics and values	●	●	●	●	●	●	●
Financial management	●	●	●			●	●
HR issues				●	●		
International markets	●	●	●	●	●	●	●
Mergers and acquisitions	●	●	●		●	●	●
Operational performance/delivery	●	●	●	●		●	●
Risk management		●	●	●	●	●	●
Strategic development	●	●	●	●	●	●	●

We were delighted to announce the appointment of Constance Baroudel as a new Non-Executive Director with effect from 1 July 2016. Constance's previous experience as a non-executive director will make her a good addition to the Board. Odgers was also appointed to assist the Committee with respect to Constance's appointment. The Committee was satisfied that, when providing its advice with respect to the appointment of Constance, and Adam, Odgers did not have any other connections with the Company.

Amanda Mellor has decided not to stand for re-election at the 2016 AGM and will, therefore, be leaving the Board with effect from the conclusion of the meeting. Since her appointment in 2011, Amanda has made a significant contribution to the Board and its committees, latterly as the Chair of the Remuneration Committee. I would like to thank Amanda for her hard work and support during this time.

New Director inductions

During the 2016 financial year, the Chairman oversaw Justin's, Adam's and Constance's inductions. The Chairman agreed a full, formal and tailored induction programme with each of them, which included meetings with senior management, a number of site visits and briefings from the Company Secretary and the Company's advisers. Both Justin and Adam completed their induction programmes promptly and reported that they had found them a useful way of developing their understanding about the Group. Constance expects to conclude her induction shortly.

Succession planning

As a committee, we are keen to ensure that a strong pipeline of future senior management has been identified, from which future Board appointments can be made. In particular, our focus is on ensuring that the Board has the right mix of skills and experience both to lead a business which has changed significantly since the acquisitions of May Gurney and Mouchel and also to oversee the delivery of the Group's strategy.

During the year, the Committee worked closely with the newly-appointed Group HR Director and the Group Head of Talent and Organisational Development to identify the pipeline of potential future Board members. In particular, the Committee meeting in May 2016 focused exclusively on Executive Director succession planning.

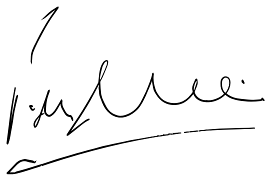
Diversity

As a board, we recognise the benefits of diversity. Diversity of skills, background, knowledge, experience and gender, amongst a number of other factors, are and will continue to be taken into consideration when new appointments to the Board are made. All Board appointments are and will continue to be made on merit.

The Committee notes the recommendation in the five-year review of Lord Davies' Report (published in October 2015) that there should be a minimum representation of women on boards of 33% by 2020. The size of the Board in recent years, amongst other factors, has made this challenging to achieve. Gender diversity will, however, remain a consideration when reviewing the Board's future composition.

Committee performance evaluation

As part of the 2016 Board performance evaluation, the Committee assessed its own effectiveness. While the Committee agreed that, in 2016, it had made good progress with respect to Executive Director succession, it also agreed that improvement should be made to the search, selection and succession planning process for Non-Executive Directors. This will remain an area of focus in the 2017 financial year.



Phil White
Chair of the Nomination Committee

21 September 2016

Accountability

Highlights

- **Effective systems of risk management and internal control**
- **Robust assessment of principal risks and uncertainties**
- **Assessment of the Board's risk appetite conducted**
- **Viability statement produced for the first time**

Systems of risk management and internal control

General

The Board is responsible for the Group's systems of risk management and internal control, including those established to identify, assess, manage and monitor risk. These systems are designed to mitigate, but cannot completely eliminate, the risks faced by the Group. The Board has delegated responsibility for overseeing the implementation of these systems to the RMAC.

The Head of Internal Audit reports to the RMAC on strategic risk issues and has oversight of the Group's risk management framework. Working with the Head of Internal Audit, management is responsible for the identification and evaluation of the risks that apply to the Group's business and operations, together with the design and implementation of controls which are designed to manage those risks.

Risk registers are prepared at business unit, divisional and Group level. Those registers identify internal and external factors and risks, including those relating to contract delivery, tender pricing, the Group's IT systems and its funding requirements. These risks, and the controls designed to mitigate them, are continuously monitored.

The principal aspects of the Group's systems of risk management and internal control also include:

- The Risk Review Committee, which reviews risks arising during tenders for new contracts;
- The Investment Committee, which reviews risks relating to investment decisions taken by the Group;
- The Group's standing orders that set out delegated authorities within which the Group operates. These are supplemented by standing orders which apply at divisional and business unit levels; and
- A number of Group-wide committees which ensure that key risks are managed appropriately. These include the Safety, Health and Environment Committee and committees which focus on the management of IT risks relating to the Group.

To support this structure, the Group has a 'whistleblowing' arrangement which enables employees to raise concerns in confidence. Further information about this arrangement is set out under 'Systems of risk management and internal control – Whistleblowing arrangements' in the Risk Management and Audit Committee report on page 60.

A summary of how the Group identifies and manages risk is set out on page 26.

Financial reporting process

The Group has clear policies and procedures to ensure the conformity, reliability and accuracy of financial reporting, including the process for preparing the Group's interim and annual financial statements.

The Group recruits suitably qualified and experienced finance professionals who have responsibility for the financial reporting process. Duties are segregated, with clear lines of accountability and delegations of authority. The Group's financial reporting policies and procedures cover financial planning and reporting, preparation of financial information and the monitoring and control of capital expenditure. The Group's financial statements preparation process includes reviews at business unit, divisional and Group levels.

Effectiveness review

The Code requires the Board, at least annually, to conduct a review of the Group's systems of risk management and internal control. The steps taken by the RMAC, on behalf of the Board, in reviewing these systems are described under 'Systems of risk management and internal control – Effectiveness review' in the Risk Management and Audit Committee report on page 60.

Assessment of principal risks

The Group's principal risks and uncertainties are set out on pages 27 to 31 (inclusive). The Board's statement relating to its assessment of the principal risks is set out on page 48.

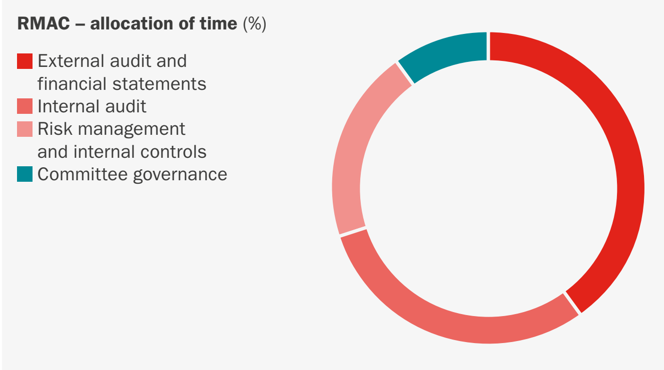
Following the appointment of a new Head of Internal Audit, the Board has taken the opportunity to conduct a fresh review of its principal risks and uncertainties, together with its appetite with respect to each such risk. At its meeting in June 2016, the Board reviewed a report produced by management which identified management's views of the Group's principal risks. The Board broadly supported management's assessment and then indicated its desired position with respect to each such risk, using gradings of 'risk averse', 'risk neutral' or 'risk tolerant'. This feedback is being taken into account by the Internal Audit function when reviewing the Group's systems of risk management and internal control.

Board statements

The Board delegated the responsibility for conducting the work required for it to provide the 'fair, balanced and understandable', 'going concern' and 'viability' statements to the RMAC. Further details of the work carried out by the RMAC in support of these statements is set out in the Risk Management and Audit Committee report on pages 60 and 61. In conducting this work, the RMAC acts on behalf of the Board and its activities remain the responsibility of the Board.

Risk Management and Audit Committee report

Adam Walker
Chair



Dear shareholder,
I am pleased to present the Risk Management and Audit Committee report, which summarises the activities of the Committee during the 2016 financial year.

I will be available at the AGM on 18 November 2016 to answer any questions you may have about how the Board and the Committee oversee the management of risk and the Group's systems of risk management and internal control.

Richard Bailey, the previous Chair of the Committee, retired from the Board and as the Chair of the Committee with effect from 31 January 2016. I would like to thank Richard for his significant contribution as the Chair of the Committee over more than five years, during which he oversaw a number of changes to the way in which the Group manages risk following the acquisitions of May Gurney and Mouchel.

Role
The role of the Committee includes:

- Monitoring the Group's financial reporting procedures and the external audit;
- Examining the integrity of the Group's financial statements and challenging significant financial reporting and other judgements;
- Assisting the Board to review the adequacy and effectiveness of the Group's systems of risk management and internal control;
- Reviewing the adequacy of the Group's whistleblowing arrangements;
- Reviewing the effectiveness of the Group's internal audit function, agreeing the list of audits to be conducted each year and reviewing the results of those audits; and
- Testing the independence and objectivity of the external auditor and approving any non-audit services provided by the external auditor.

The terms of reference for the Committee can be viewed on the Company's website at http://www.kier.co.uk/corporategovernance.

Composition and meeting attendance
The members of the Committee at 30 June 2016 were:

- Adam Walker (Chair)
- Justin Atkinson
- Kirsty Bashforth
- Amanda Mellor
- Nick Winser

As a chartered accountant and the Finance Director of GKN plc, I am considered by the Board to have recent and relevant financial experience.

The Committee met formally five times during the 2016 financial year. In addition to the Committee members, the following were also in attendance:

- The Finance Director, the Group Financial Controller and the Head of Internal Audit;
- Other members of the Board, when considered appropriate for them to do so – for example, the Chairman and the Chief Executive attended the September 2015 and March 2016 meetings, at which the Group's full-year and half-year results, respectively, were considered;
- Representatives from PwC for external audit matters; and
- Representatives from KPMG for internal audit matters.

The secretary of the Committee is the Company Secretary. Details of attendance at Committee meetings during the 2016 financial year are set out on page 51.

Principal activities – 2016 financial year
The following matters were considered during the Committee meetings which took place during the year:

	Sept	Feb	Mar	June
Financial reporting				
Full-year results and announcements	●			●
Half-year results and announcements			●	
Going concern	●		●	
Viability statement	●			●
Fair, balanced and understandable requirement	●		●	
Dividend	●		●	
External audit				
Management representation letter	●		●	
Evaluation of external auditor's effectiveness		●		
Recommendation of re-appointment	●			
Non-audit fees	●	●	●	●
External audit plan				●
Internal audit				
General update	●	●	●	●
Evaluation of internal auditor's effectiveness		●		
Approval of internal audit plan				●

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Risk Management and Audit Committee report continued

Principal activities – 2016 financial year continued

	Sept	Feb	Mar	June
Risk management				
Systems of risk management and internal control	●	●		●
Assessment of principal risks		●		●
Other				
Whistleblowing	●	●		●
Review of terms of reference				●

Systems of risk management and internal control

General

Information on how the Group identifies and manages risk is set out on page 26. A description of the principal aspects of the Group's systems of risk management and internal control is set out on page 58.

During the year, the Committee reviewed reports providing a consolidated analysis of the divisional and business unit risk registers. Having done so, it challenged management to ensure that the risks identified were being appropriately managed and mitigated. In addition, the Committee challenged management to consider potential future risks which may affect the Group, in the light of its plans for future growth.

Effectiveness review

The Code requires the Board, at least annually, to conduct a review of the effectiveness of the Group's risk management and internal control systems. The Board's statement about this review is set out on page 48.

At its meeting in September 2016, the Committee reviewed management's assessment of the key elements of the Group's systems of risk management and internal control. The Committee noted, in particular, that:

- During the year, management had made significant progress with respect to implementing a number of actions following the review of the Group's key financial controls;
- Good progress had been made in relation to the Group's ERP system;
- Management had agreed to set up a single finance shared services centre, which would facilitate the introduction of common systems and procedures across the Group; and
- During the year, KPMG had conducted a number of internal audit reviews across the Group's operations and had worked with management to ensure that actions were closed-out appropriately.

Whistleblowing arrangements

The Company makes available an externally-hosted helpline, which employees can call, in confidence, if they have any concerns about improprieties in financial reporting or other matters. Any such concerns raised are then investigated. During the year, the Committee reviewed reports which provided details of any material issues referred to the helpline and how management had investigated them. Access to the Kier helpline was made available to the Mouchel businesses during the year.

Board statements

Under the Code, the Board is required to provide a number of statements, as set out on page 48. The Committee's work to support the Board's statement with respect to the Group's systems of risk management and internal control is described above under 'Systems of risk management and internal control – Effectiveness review'. The Committee's work with respect to the 'fair, balanced and understandable', 'going concern' and 'viability' statements is described below.

Fair, balanced and understandable

The principal aspects of the review process conducted by the Committee and management to support the Board's statement were:

- Setting up a committee of senior individuals within the Group to draft the Annual Report;
- Holding regular meetings of this committee to discuss and agree significant disclosure items;
- The committee members retaining copies of supporting materials and confirming that, in their opinion, the sections drafted by them were 'fair, balanced and understandable';
- Requesting that certain key contributors to sections of this Annual Report (for example, Managing Directors and Finance Directors of business units) sign a declaration confirming the accuracy of the information provided;
- Arranging for PwC and FutureValue (a corporate reporting consultancy) to review the Annual Report and for Mercer, the Company's remuneration consultants, to review the Remuneration Report;
- Circulating drafts of the Annual Report to the Committee and the Board for review; and
- Discussing material disclosure items at a meeting of the Committee held in September 2016.

Going concern

The principal aspects of the review process conducted by the Committee and management to support the Board's statement were:

- Reviewing the Group's available sources of funding and, in particular, testing the covenants and assessing the available headroom using a range of assumptions;
- Reviewing the short, medium and long-term cash flow forecasts, noting the significant progress made during the year in relation to short-term cash management;
- Taking into account the current and forecast activities of the Group, including its long-term contracts and order books, and those factors considered likely to affect its future performance and financial position; and
- Taking into account the Group's principal risks and uncertainties.

The Committee discussed the going concern statement at its meeting in September 2016 and, having done so, recommended that the Board provided it in the form set out on page 48.

Viability statement

The Directors have chosen to consider the prospects of the Group over a three-year period ending 30 June 2019, as they consider it to be a period over which they are able to forecast the Group's performance with reasonable certainty. In particular:

- As part of its work to support this statement, the Committee took into account the potential likelihood and impact of the Group's principal risks and uncertainties. These risks and uncertainties are assessed on a rolling three-year basis;
- A number of the programmes relating to the Group's key construction projects, which are important factors in an assessment of the Group's performance, support a review over a three-year period; and
- The KPIs contained in Vision 2020 cover a three-year period ending 30 June 2019.

The Committee has supported the Board in the delivery of this statement by:

- Considering the current position and prospects of the Group, as described above under 'Going concern';
- Reviewing progress against Vision 2020, which was also formally discussed at Board meetings during the year;
- Assessing the Group's principal risks and uncertainties; and
- Reviewing a scenario stress test conducted by management that involved an assessment of the Group's ability to absorb varying degrees of plausible downside scenarios, including significant reductions in revenue, profitability and cash, the removal of finance facilities and a material adverse affect on the business caused by Brexit.

The Committee discussed and approved the viability statement at its meeting in September 2016 and, having done so, recommended that the Board provided it in the form set out on page 48.

Internal audit

Internal audits – 2016 financial year

During the 2016 financial year, the Committee monitored the implementation and progress of the 2016 internal audit plan, which was approved by the Committee at its June 2015 meeting. Results from each completed audit were discussed by the Committee, together with the actions taken by management with respect to those audits.

Internal auditor effectiveness

The Code and the Committee's terms of reference require the Committee to monitor and review the effectiveness of the Group's internal audit function.

During the 2016 financial year, the Head of Internal Audit issued a detailed questionnaire addressing various aspects of both the Internal Audit function and KPMG's performance as the co-sourced internal auditor to a number of stakeholders, including members of the Committee and senior management. The feedback from the completed questionnaires was then discussed by the Committee at its meeting in February 2016.

The Committee concluded that, overall, the Group's Internal Audit function was operating effectively, with positive feedback being provided in relation to the quality of KPMG's reports to the Committee, the focused nature of KPMG's review methodology and the ability for material risk issues to be escalated effectively to senior management. Areas of focus identified by the review included a need to ensure that topics for audit were carefully selected, that issues identified during audits were appropriately closed-out and that reports were produced in a timely manner. Feedback was subsequently provided to KPMG.

KPMG has indicated its willingness to continue in office and the Committee has decided to appoint KPMG as the co-sourced internal auditor for the 2017 financial year.

External audit

Introduction

The Committee is responsible for:

- Approving the annual audit plan;
- Monitoring the effectiveness of the external audit process;
- Making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor;
- Approving the remuneration and terms of engagement of the external auditor;
- Reviewing and monitoring the external auditor's independence and objectivity; and
- Developing and implementing a policy on the engagement of the external auditor to supply non-audit services.

External auditor effectiveness

A similar process to that used for the purposes of assessing the internal audit function's effectiveness was applied with respect to PwC's performance as the external auditor.

A questionnaire was issued to a number of key stakeholders, including members of the Committee and those involved in the 2015 audit, and the feedback received was discussed by the Committee at its meeting in February 2016.

The Committee concluded that, overall, it was satisfied with PwC's performance during its first year as the external auditor. Positive feedback was received in respect of PwC's collaborative, but challenging, approach, its technical expertise and the quality of its reporting to the Committee. The review also identified the need to ensure that the audit team has an appropriate range of skills and experience, that the audit process is adequately communicated and that there is effective project management of the audit process.

The Committee will formally assess PwC's performance in relation to the 2016 audit process during the 2017 financial year. However, the Committee discussed its preliminary views at its meeting in September 2016 and concluded that, overall, it was satisfied with PwC's performance.

PwC has indicated its willingness to continue in office and the Committee has recommended PwC's re-appointment to the Board. A resolution to this effect will therefore be proposed at the 2016 AGM.

External auditor independence and non-audit services

During the 2016 financial year, PwC provided non-audit services to the Group. The Committee monitors the level and scope of non-audit work awarded to PwC to ensure that any services provided are within relevant ethical guidance and that the associated fees are not of a level that would affect PwC's independence and objectivity. All fees relating to the provision of non-audit fees by PwC must be referred to and agreed by the Committee.

The fees paid to PwC during the 2016 financial year in respect of non-audit services were:

Type of services	Specific services	Amount (£000)
Non-audit assurance	Project assurance in relation to ERP project	62
	Sustainability reporting assurance	45
	Interims review – 2016 financial year	35
Tax advice and compliance	Mouchel tax compliance services – UK	46
	Mouchel tax advice and compliance – Middle East	31
Total		**219**

The total audit fees payable by the Group with respect to the 2016 financial year are £1,419,000. The total non-audit fees during the 2016 financial year therefore represented approximately 15% of the audit fees payable in respect of the year. During the 2015 financial year, £496,000 was paid to PwC in relation to non-audit fees, representing approximately 39% of the audit fees for that year. All figures exclude VAT.

Risk Management and Audit Committee report continued

PwC was first appointed to conduct the interims review and audit for the 2015 financial year. PwC has strict requirements on lead partner rotation and the lead audit partner is required to change after five years. As part of the 2016 audit, PwC confirmed that it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account, and having considered the steps taken by PwC to preserve its independence, the Committee concluded that PwC's independence had not been compromised notwithstanding the level of non-audit fees incurred during the year.

Financial statements – 2016

The audit process

The scope of the 2016 audit was approved by the Committee at its meeting in June 2016. The Committee reviewed and challenged the proposed plan and considered the levels of materiality and resources proposed by PwC to ensure that they met the Group's requirements. The audit fee was also discussed with the Committee prior to its approval.

I met the lead audit partner from PwC to discuss the 2016 audit process. At its September 2016 meeting, the Committee reviewed PwC's findings and discussed the significant issues that arose during the audit. In particular, the Committee and PwC discussed the key accounting and audit judgements and reviewed any unadjusted audit differences which had been identified.

Significant issues and other accounting judgements

The Committee is responsible for reviewing the appropriateness of management's judgements, assumptions and estimates in preparing the financial statements. After discussions with management and PwC, the Committee determined that the significant issues and other accounting judgements relating to the 2016 financial statements are as shown in the table below.

Committee performance evaluation

As part of the 2016 Board performance evaluation, the Committee assessed its own effectiveness. Committee members agreed that, overall, the Committee's performance had been effective during the year. The Committee agreed that areas of focus for the 2017 financial year included continuing to review the Group's approach to the evaluation of risk, ensuring appropriate interaction between the Board and the Committee on risk and maximising the benefits of the Internal Audit programme.

Adam Walker
Chair of the Risk Management and Audit Committee

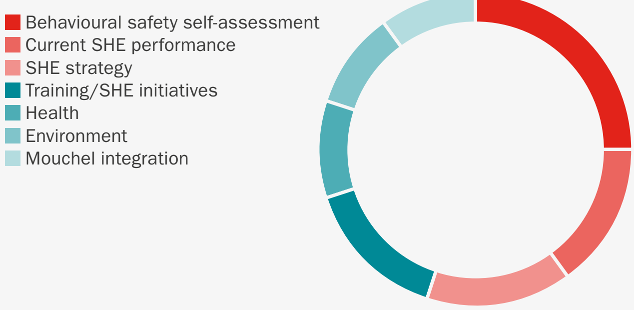
21 September 2016

Significant issue and other accounting judgements	How the Board/RMAC addressed these issues/judgements
Accounting for long-term contracts – including profit recognition, work-in-progress and provisioning	The Group has significant long-term contracts in the Construction and Services divisions, in particular. Profit is recognised according to the stage of completion of the contract. The assessment of profit requires the exercise of judgement when preparing estimates of the forecast costs and revenues of a contract. A number of factors are relevant to this assessment, including, in particular, the expected recovery of costs. During the year, the Board regularly reviewed and considered management's latest assessment of the forecast costs and revenues on certain significant long-term contracts – for example, the Group's projects for MTR in Hong Kong and its Environmental Services contracts. In addition, the Committee identified accounting for long-term contracts as one of the principal matters for review by PwC in the 2016 audit. The Committee also discussed management's assessment of the profit on such contracts with PwC and management when considering the interim and year-end financial statements at its meetings in March 2016 and September 2016, respectively. PwC's conclusion is set out in the independent auditor's report: please see page 90.
Accounting for adjustments to underlying profit	Management has separately disclosed certain non-underlying items, in addition to presenting the underlying results of the Group. Details of those items are set out in note 4 to the consolidated financial statements. The non-underlying items and their disclosure have been regularly discussed at Board meetings during the 2016 financial year. The Board obtained advice from the Company's corporate brokers and PwC in relation to such items. The Committee identified the accounting treatment of non-underlying items as one of the principal matters for review by PwC in the 2016 audit. At its meeting in September 2016, the Committee reviewed and considered these items with both PwC and management in the context of its review of the 2016 financial statements. PwC's conclusion is set out in the independent auditor's report: please see page 91.
Valuation of land and properties	The Group holds inventory within the Residential division, primarily comprising land held for residential development, for which construction has not started, and work-in-progress. The carrying value of the inventory is based on the Group's current estimates of the sales prices and building costs. One of the key elements of the systems of risk management and internal control within the Residential division is the development appraisals prepared by management, using a number of internal and external reference points. At its meeting in June 2016, the Committee identified the valuation of land and properties as a key area of judgement and, therefore, instructed PwC to challenge the principal assumptions underlying management's appraisals during the 2016 audit, in particular those relating to building costs and sales rates. PwC's conclusion is set out in the independent auditor's report: please see page 90.
Assessment of carrying value of goodwill	The majority of the Group's goodwill relates to the acquisitions of Mouchel and May Gurney. Both the Board and the Committee have continued to oversee and monitor the performance of the Group during the 2016 financial year. This performance and, in particular, the Group's ability to generate cash is of particular relevance to the audit procedures conducted by PwC with respect to the carrying value of goodwill. Throughout the year, the Board and the Committee have challenged management to ensure effective cash management by the Group's businesses. PwC's conclusion is set out in the independent auditor's report: please see page 92.

Safety, Health and Environment Committee report

Nick Winser
Chair

SHE Committee – allocation of time (%)



Dear shareholder,
I am pleased to present the Safety, Health and Environment Committee report for 2016.

This report provides a summary of the Committee's activities during 2016. I will be available to answer any questions about the work of the Committee at the AGM on 18 November 2016.

The health and safety of all those who visit and work at the Group's sites, together with the protection of the environment are key priorities for Kier. It is therefore important that the Group has a well-established and robust governance structure, led by the Committee, to ensure that safety, health and environment (SHE) matters are appropriately managed by the Group.

The Group now operates on several hundred sites at any one time, both throughout the UK and internationally, and its projects are both complex and inherently dangerous. I am therefore pleased to be able to report, overall, a strong SHE performance in 2016; however, we remain committed to seeking continuous improvement in the management of SHE risks in the workplace.

Role
The role of the Committee includes:

- Assisting the Board to review the Group's strategy with respect to SHE matters;
- Encouraging management accountability with respect to managing the Group's SHE risks;
- Reviewing and, as necessary, approving material Group-wide SHE initiatives, policies and procedures;
- Receiving reports on any major SHE incidents; and
- Monitoring the Group's performance against SHE targets.

The terms of reference for the Committee can be viewed on the Company's website at http://www.kier.co.uk/corporategovernance.

Composition and meeting attendance
The members of the Committee at 30 June 2016 were:

- Nick Winser (Chair)
- Justin Atkinson
- Kirsty Bashforth
- Amanda Mellor

The Chief Executive, the Executive Director – Construction and Infrastructure Services, the Executive Director – Developments, Property and Business Services and the Group SHE Director are expected to attend meetings, unless they are notified to the contrary. The secretary of the Committee is the Company Secretary.

Details of attendance at Committee meetings during the 2016 financial year are set out on page 51.

Principal activities – 2016 financial year
A summary of the Committee's principal activities in the 2016 financial year is as follows:

Review of policies and procedures
During the 2015 financial year, we announced the appointment of a new Group SHE Director, John Edwards. One of John's principal areas of focus has been to review the Group's policies and procedures relating to the management of SHE risks. John has made good progress, as demonstrated, for example, by the simplification of the Kier SHE management systems and an improvement in the quality of SHE training undertaken throughout the Group.

SHE performance and strategy
The Committee has continued to review management's plans to ensure that the management of SHE issues remains a top priority in the context of Vision 2020.

During the year, the Committee reviewed the Group's SHE performance against an agreed set of KPIs, which are designed to support the Group's strategic priority of operating a safe and sustainable business. I am pleased to report that, overall, good progress has been made against these targets. The Committee has also reviewed progress against the Group's SHE strategic business plan, which describes the Group's strategy with respect to the management of SHE issues.

Behavioural safety self-assessment
In the 2015 Annual Report, I referred to the Committee's oversight of the behavioural safety self-assessment which was being conducted across the Group to assess each business' cultural maturity in order to set a benchmark against which to measure the Group's SHE culture and performance.

During the 2016 financial year, the results of this self-assessment have been used to assist the development of an integrated SHE culture following the acquisition of Mouchel. The revised Group policies and procedures (please see 'Review of policies and procedures' above) have supported the development of this culture. In addition, management has introduced a number of innovative techniques – for example, an app to assist the collection of data and communicate SHE best practice across the business, an interactive guidance pack for new starters on site and various succinct best practice guides for SHE advisers and managers.

Health and wellbeing
During the year, the Committee has overseen the introduction of a health and wellbeing programme throughout the Group.

Safety, Health and Environment Committee report continued

The principal aim of the programme has been to raise awareness of common health issues. The programme included initiatives ranging from a 'health kiosk' (which tested staff on core health issues), which visited various offices and sites around the country, to raising awareness of more significant occupational health issues.

Environmental matters

Management has established a set of KPIs against which it measures the Group's environmental performance, including with respect to carbon emissions, water usage and waste management. During the year, the Committee reviewed the Group's performance against these KPIs and was pleased to note that good progress was being made. In addition, the Committee reviewed the statistics relating to the reporting of environmental incidents (for example, effluence leakages or spillages and noise or dust pollution) and challenged management to take appropriate action following such incidents. The Committee also oversaw Kier's Environment Week in June 2016, the principal objective of which was to increase awareness of environmental issues across the Group.

Mouchel integration

One of the key projects overseen by management during the year was the integration of Mouchel's and Kier's respective SHE policies and procedures, creating a uniform set of policies and procedures across the enlarged Group. Management, the business and the SHE teams have worked hard to ensure that this integration was conducted in an efficient manner, with as little disruption to the combined business as possible. Further details are set out opposite.

Current performance

At each of its meetings during the year, the Committee reviewed the Group's current SHE performance. A range of statistics, supported by an appropriate commentary, was tabled for discussion. The Committee has continued to challenge management to ensure that the remedial actions which are taken following 'high-potential' incidents are closed-out in a timely manner, that such incidents continue to be reported and that the learning points are communicated across the Group.

Regulatory investigations

From time to time, the Health and Safety Executive (the HSE) and the Environment Authority (the EA) will conduct investigations into incidents which occur on the Group's sites. Some of these investigations result in court proceedings being taken against the Group and, as a committee, we work with management to ensure that its approach to the conduct of these proceedings is appropriate, in particular in light of the new sentencing guidelines for health and safety offences which came into force in February 2016.

During the year, the Committee monitored the status of the HSE's investigation into a fatality which took place in March 2014 on the BFK joint venture's site at Farringdon station (part of the Crossrail project), together with two other incidents which occurred in January 2015 on the joint venture's site at Bond Street. In addition, the Committee oversaw management's response to the EA's prosecution of the KMI joint venture following an environmental incident on a site in the North West in December 2013.

Mouchel integration

During our due diligence on Mouchel, we were able to obtain an early understanding of how it managed SHE risks and identified a common approach in a number of areas. Subsequently, we have aligned the structure of the legacy Mouchel SHE function with Kier's equivalent, integrated the reporting of SHE statistics and, where appropriate, migrated data and processes from external systems used by Mouchel to Kier's systems.

Committee performance evaluation

As part of the 2016 Board performance evaluation, the Committee assessed its own effectiveness. Committee members agreed that, overall, the Committee's performance had been effective during the year. The Committee identified providing oversight of the steps taken by management to promote health and wellbeing issues throughout the Group and to support the Group's commitment to operating a safe and sustainable business as being two principal areas of focus during the 2017 financial year.

Nick Winser
Chair of the Safety, Health and Environment Committee

21 September 2016

Relations with shareholders

Highlights

- **Roadshows following financial results**
- **Meetings between the Senior Independent Director and shareholders**
- **Meetings with shareholders on remuneration and sustainability issues**
- **Capital Markets Day, with a focus on the highways business**

Relations with shareholders
Members of the Board welcome the opportunity to engage with shareholders and to understand their views on matters of importance to them – for example, strategy, governance, remuneration and sustainability.

Strategy
The Chief Executive and the Finance Director met major shareholders following the preliminary announcement of the Group's 2015 results and the announcement of the Group's 2016 interim results to discuss a number of matters, including progress against the Group's strategy.

During the year, the Chairman also met major shareholders on an informal basis to discuss a variety of matters, including the Group's strategy and governance and remuneration matters.

Governance
Justin Atkinson, in his capacity as the Senior Independent Director, met a number of shareholders following his appointment to the role. These meetings have assisted Justin to develop a balanced understanding of their issues and concerns.

Remuneration
The Chair of the Remuneration Committee, Amanda Mellor, led the engagement with shareholders with respect to the Executive Directors' remuneration for the 2017 financial year. The Remuneration Committee is grateful to shareholders for the level of their engagement and reflected their feedback in its deliberations.

Sustainability
In September 2015, a number of major shareholders met to review our strategy for a sustainable business, at which we demonstrated how this strategy has been integrated into Vision 2020. We also gained an understanding of the key non-financial considerations taken into account by shareholders – for example, business ethics, customer experience and health and safety. Other meetings with individual shareholders on sustainability matters were held during the year.

Constructive use of the AGM
The Board uses the AGM as an opportunity to communicate directly with shareholders.

All members of the Board attend the Company's AGMs and shareholders are invited to attend, ask questions and meet directors prior to, and after, the formal proceedings. The Chairs of the Board committees are present at the meeting to answer questions on the work of their committees.

The results of the voting at the 2015 AGM were:

		For	Against
	Resolution	Percentage of votes cast[1,2]	Percentage of votes cast[2]
1	Receive Annual Report and Accounts	99.92	0.08
2	Remuneration Report	98.50	1.50
3	Declare final dividend	99.96	0.04
4–14	Appointment of Directors	96.81–99.98	3.19–0.02
15	Appointment of auditor	99.94	0.06
16	Auditor's remuneration	99.97	0.03
17	Authority to allot shares	99.77	0.23
18	Disapplication of pre-emption rights	94.92	5.08
19	Approve the new Sharesave Scheme	99.98	0.02
20	Meetings on 14 days' notice	95.59	4.41

1 Includes those votes for which discretion was given to the Chairman.
2 Does not include votes withheld.

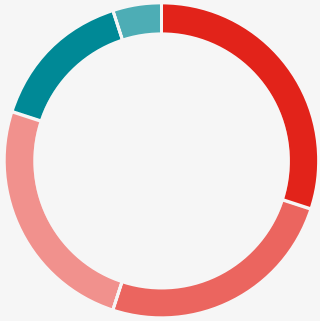
Capital Markets Day – 6 July 2016

On 6 July 2016, we held a Capital Markets Day at the Area 3 depot near Basingstoke to provide investors and analysts with an insight into the Group's highways maintenance and management operations. Representatives from one of our key clients, Highways England, also attended.

Annual statement of the Chair of the Remuneration Committee

Amanda Mellor
Chair

Remuneration Committee allocation of time (%)



Dear shareholder,
On behalf of the Board, I am pleased to present the Remuneration Report for 2016, which provides details of the remuneration earned by the Directors in the 2016 financial year.

Our remuneration policy was approved by shareholders at the 2014 AGM and no changes have been made to it since then. However, in order to ensure transparency and to provide context for the decisions taken by the Committee during the year, a summary of the policy has been included in this report. Information relating to the implementation of our remuneration policy in the 2016 and 2017 financial years is included in the annual report on remuneration.

As in previous years, this report is divided into three sections: this annual statement, the annual report on remuneration on pages 68 to 77 (inclusive) and a summary of the remuneration policy on pages 78 to 85 (inclusive).

Remuneration framework
During the 2016 financial year, the Committee reviewed the framework for executive remuneration at Kier in detail to ensure that it remained appropriate to promote the long-term success of the Company. The Committee is also aware of the need for executive remuneration at Kier to remain competitive and to reflect trends in the market.

Working together with its remuneration advisers, Mercer, the Committee considered a number of potential options for the simplification of Kier's executive remuneration framework.

However, the Committee concluded that, although a number of these options would incentivise the delivery of Vision 2020 and align management's interests with those of shareholders, the scope of the proposals would require material changes to the current remuneration policy. The Committee therefore intends to reconsider these proposals during the 2017 financial year, when it will engage with shareholders in relation to a revised remuneration policy for shareholder approval at the 2017 AGM.

Shareholder engagement
As part of its broader review of the executive remuneration framework (please see above), the Committee also took the opportunity to review the principal component elements of the Executive Directors' remuneration, including base salary, annual bonus and long-term incentives. The Committee then engaged with shareholders with respect to:

- The Executive Directors' base salaries for the 2017 financial year;
- The removal of the 'personal objectives' element of the annual bonus scheme, with the 20% awarded in the 2016 financial year being re-allocated across the profit and cash targets; and
- The inclusion of a third performance condition in the annual Long Term Incentive Plan (the LTIP) award – namely, a net debt:EBITDA performance condition.

The review identified, in particular, that the Chief Executive's base salary, maximum annual bonus opportunity and LTIP award were all low relative to those at peer group companies. Taking this into account, and noting the positive feedback received from shareholders about the Chief Executive's performance since being appointed to the role in 2014, the Committee proposed an 11.3% increase in his base salary to £590,000 for the 2017 financial year. The Committee also proposed a 4% increase in base salary for the other Executive Directors, reflecting their continued strong performance and the approximate salary increases across the Group's professionally-qualified employees. Further details of the Executive Directors' base salaries for the 2017 financial year are set out on page 76.

To ensure a strong link between pay and the value delivered to shareholders, the Committee proposed that the 20% 'personal objectives' element of the 2016 bonus would be re-distributed across the net debt/cash and profit elements of the 2017 bonus, as to 15% and 5%, respectively.

Having reviewed the performance conditions for the LTIP, the Committee concluded that earnings per share (EPS) and total shareholder return (TSR) remained relevant measures of performance. However, the Committee also concluded that it would now be appropriate to introduce a performance condition linked to long-term cash generation and conversion, since both are key objectives in the context of the delivery of Vision 2020 and are complementary to the existing EPS and TSR measures. Although the Committee considered return on capital employed (ROCE) as a potential performance condition, it concluded that it would not be an appropriate measure because significant parts of the Group (for example, Construction and Services) do not utilise capital to a material extent.

Remuneration – 2017 financial year
The Committee is grateful for the level of engagement from shareholders to the proposals summarised above. During the consultation process, I met with and spoke to a number of shareholders to understand their views, before reporting back to the Committee. Overall, shareholders were supportive of the proposals. The Committee discussed this feedback when deciding the Executive Directors' remuneration for 2017, as follows:

- Base salaries: these are set out on page 76 and reflect the considerations summarised above;

- Annual bonus: the maximum opportunity remains at 100% of base salary. Of this, a maximum of 50% will relate to profit, a maximum of 40% to year-end cash/net debt and a maximum of 10% to health and safety targets. Performance against the specific targets will be disclosed in next year's Annual Report; and
- LTIP: each of the Executive Directors will continue to receive an award of 150% of their base salaries. The performance conditions for this award will relate to EPS (50%), TSR (25%) and net debt: EBITDA (25%) measured over the three-year period ending 30 June 2016, as described in further detail on page 76.

There are no other changes to any other elements of the Executive Directors' remuneration.

The Committee's principal activities – 2016 financial year
In addition to its review of the remuneration framework, its engagement with shareholders and setting the Executive Directors' remuneration for 2017, the Committee's other principal activities and key decisions during the year included:
- Approving the 2015 Remuneration Report and considering the 2015 AGM vote on the report;
- Reviewing and approving the bonuses paid to the Executive Directors in respect of the 2015 financial year;
- Setting the performance measures relating to, and the quantum of, LTIP awards made to the Executive Directors during the 2016 financial year;
- Making a preliminary assessment of performance against the Executive Directors' bonus targets for the 2016 financial year;
- Considering institutional investors' current guidelines on executive remuneration;
- Considering the remuneration arrangements for the Group's wider workforce;
- Considering external market developments and best practice;
- Reviewing the Committee's terms of reference; and
- Reviewing the Committee's performance.

A summary of the Committee's allocation of time during the year is set out on page 66.

Since 1 July 2016, the Committee has approved the Executive Directors' bonus payments relating to the 2016 financial year and considered the level of vesting of the 2013 LTIP award following the end of the performance period on 30 June 2016.

The Committee believes that the 2016 bonus payments reflect the overall performance of the Group in the year, during which management oversaw the successful integration of Mouchel, began the simplification of the Group's portfolio of businesses and has focused on driving operational efficiencies throughout the Group. The maximum payment of the cash element of the 2016 bonus (25%) reflects the Group's good working capital performance, which has been a priority for management during the year. Each of the Executive Directors performed well against their personal objectives and each received 15% (out of a maximum opportunity of 20%) for this element of the 2016 bonus.

The three-year performance period for the LTIP award granted in 2013 concluded on 30 June 2016. The Executive Directors will receive 34% of the award when it vests in October 2016. The Committee believes that the level of vesting of the award demonstrates the Group's robust performance over the past three years in challenging market conditions.

Further details relating to the bonus payments and the vesting of the 2013 LTIP award are set out on pages 69 and 70, respectively.

Committee performance evaluation
As part of the 2016 Board performance evaluation, the Committee assessed its own effectiveness. The Committee acknowledged that executive remuneration is increasingly an area of focus for shareholders and other interested parties. Accordingly, it identified the need to continue to improve the process for reviewing executive remuneration and setting and measuring targets as key priorities for the 2017 financial year.

Remuneration policy
No changes to the remuneration policy will be proposed at the 2016 AGM. However, one of the Committee's principal areas of focus for the 2017 financial year will be to review the existing policy and to consider whether changes are required to ensure that our remuneration framework continues to support and drive the delivery of Vision 2020 and to motivate and challenge our leaders to continue to grow the business and deliver value to shareholders. We will work with our remuneration advisers to ensure that the revised policy aligns with the Vision 2020 goals to deliver strong performance and sustainable shareholder returns. The Committee will engage with shareholders to ensure that their views are reflected in the revised policy, which will be put to shareholders for approval at the 2017 AGM.

Compliance statement
This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and the Listing Rules of the Financial Conduct Authority and applies the main principles relating to remuneration which are set out in the UK Corporate Governance Code (September 2014 edition).

Conclusion
I hope that you find our report helpful. The Committee has sought to ensure full and transparent levels of disclosure with respect to executive remuneration at Kier and to share with shareholders how it seeks to balance various considerations and interests in a fair way for the long-term success of the Group. Linking pay to the Group's performance and the delivery of the Group's strategy are important parts of the Committee's remit.

As Chair of the Committee, I have welcomed the opportunity to meet a number of major shareholders during the year to understand their views on executive remuneration, both at Kier and more broadly, and also to share with them the Committee's approach. The Committee has found this engagement with shareholders beneficial and will continue to seek to incorporate their views when considering executive remuneration at Kier.

I will be available to answer any questions at the AGM on 18 November 2016.

Amanda Mellor
Chair of the Remuneration Committee

21 September 2016

Annual report on remuneration

Introduction

This section of the report sets out the annual report on remuneration for the 2016 financial year.

The following information contained in this section of the report has been audited: the table containing the total single figure of remuneration for Directors and accompanying notes on this page 68, the pension entitlements set out on this page 68, the incentive awards made during the year set out on page 71, the payments for loss of office set out on page 71, the payments to past Directors set out on pages 71 and 72 and the statement of Directors' shareholdings and share interests set out on page 72.

Directors' remuneration for the 2016 financial year

The following table provides details of the Directors' remuneration for the 2016 financial year, together with their remuneration for the 2015 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

	Salary/fee (£000)		Taxable benefits[1] (£000)		Bonus (£000)		LTIP vesting (£000)		All-employee schemes (£000)		Pension[5] (£000)		Total (£000)	
	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016	2014/2015	2015/2016[2]	2014/2015[3]	2015/2016[4]	2014/2015	2015/2016	2014/2015	2015/2016
Executive Directors														
Nigel Brook[6]	112	350	4	14	80	315	–	40	1	1	21	70	218	790
Bev Dew[7]	188	375	6	12	172	338	–	–	–	1	38	75	404	801
Haydn Mursell	505	530	13	13	464	477	–	162	1	1	96	106	1,079	1,289
Nigel Turner[6]	112	350	4	13	80	315	–	47	1	1	22	70	219	796
Claudio Veritiero[6]	112	350	2	12	80	315	–	55	1	1	21	70	216	803
Non-Executive Directors														
Justin Atkinson[8]	–	40	–	–	–	–	–	–	–	–	–	–	–	40
Richard Bailey[9]	66	41	–	–	–	–	–	–	–	–	–	–	66	41
Kirsty Bashforth	39	50	–	–	–	–	–	–	–	–	–	–	39	50
Amanda Mellor	56	60	–	–	–	–	–	–	–	–	–	–	56	60
Adam Walker[10]	–	30	–	–	–	–	–	–	–	–	–	–	–	30
Phil White	173	188	–	–	–	–	–	–	–	–	–	–	173	188
Nick Winser	56	60	–	–	–	–	–	–	–	–	–	–	56	60
Total	1,419	2,424	29	64	876	1,760	–	304	4	5	198	391	2,526	4,948

1 Comprise private health insurance and a company car or a car allowance.
2 The award granted in October 2013 will vest as to 34%. The value is calculated using the Company's average share price for the three-month period ended 30 June 2016 of £12.01.
3 The value of the matching shares purchased during the 2015 financial year under the Share Incentive Plan (the SIP), using an average share price for matching shares purchased during the 2015 financial year of £16.08.
4 The value of the matching shares purchased during the 2016 financial year under the SIP, using an average share price for matching share purchases during the 2016 financial year of £13.27.
5 Comprises the payment of employer pension contributions and/or a cash allowance.
6 Nigel Brook, Nigel Turner and Claudio Veritiero were appointed to the Board with effect from 6 March 2015. The amounts set out under 'Salary/fee', 'Taxable benefits', 'Bonus' and 'Pension' in respect of 2014/2015 relate to the period from 6 March 2015 to 30 June 2015.
7 Bev Dew was appointed to the Board with effect from 1 January 2015. The face value of matching shares purchased for him under the SIP during the 2015 financial year was £145, which is considered 'de minimis' for the purposes of the above table.
8 Justin Atkinson was appointed as the Senior Independent Director with effect from 16 March 2016.
9 Richard Bailey retired from the Board with effect from 31 January 2016.
10 Adam Walker was appointed to the Board with effect from 1 January 2016.

All figures in the above table have been rounded to the nearest £1,000.

Pension entitlements

The Executive Directors participate in the defined contribution section of the Kier Group Pension Scheme. All receive a pension contribution of 20% of base salary, subject to the annual allowance. The balance is paid as a cash allowance. Cash allowances are subject to tax and national insurance deductions and excluded when determining annual bonus and long-term incentives.

Payments to the Executive Directors with respect to their pension entitlements during the 2016 financial year were:

Director	Pension contribution	Cash allowance	Total
Nigel Brook	£30,000	£40,000	£70,000
Bev Dew	£40,000	£35,004	£75,004
Haydn Mursell	£16,667	£89,383	£106,050
Nigel Turner	£57,500	£12,500	£70,000
Claudio Veritiero	£40,000	£30,000	£70,000

Annual bonus – 2016 financial year

The Executive Directors' bonuses in respect of the 2016 financial year (in each case before deductions for income tax and national insurance contributions) are as follows:

	Weighting	Measure		Performance level: 'Threshold'	Performance level: 'On target'	Performance level: 'Stretch'	Performance level: Actual	Performance achieved[1]: Bev Dew	Performance achieved[1]: Nigel Brook	Performance achieved[1]: Haydn Mursell	Performance achieved[1]: Nigel Turner	Performance achieved[1]: Claudio Veritiero
Financial	70%	Profit before tax	Target	<£118m	£124m	£130m	£124m	40%	40%	40%	40%	40%
			Pay-out[1]	0%	40%	45%	40%					
		Year-end cash/ net debt	Target	£(173)m	£(165)m	£(157)m	£(99)m	25%	25%	25%	25%	25%
			Pay-out[1]	0%	15%	25%	25%					
Non-financial	30%	Personal objectives (20%)		See below				15%	15%	15%	15%	15%
		Health and safety (10%)		See note 2 below				10%	10%	10%	10%	10%
Total (%)								90%	90%	90%	90%	90%
Total								£337,500	£315,000	£477,225	£315,000	£315,000

1 As a percentage of maximum opportunity.
2 Targets related to a reduction in the Group's AIR from April to June 2016, as compared with the equivalent period in 2015 (maximum opportunity: 5%) and undertaking an agreed number of health and safety site visits (maximum opportunity: 5%).

One-third of the bonus awarded will be satisfied by an allocation of shares (deferred for three years), which will be subject to 'malus' as described in the remuneration policy, a summary of which is set out on pages 78 to 85 (inclusive).

The Executive Directors had a number of personal objectives which were set against their key areas of focus and accountability. Examples of these personal objectives are:

Director	**Personal objective**
Nigel Brook	• Oversee the effective integration of Mouchel in the Construction, Infrastructure and International businesses • Review the International business' strategy to ensure alignment with Vision 2020 • Combine the Strategic Highways and Local Authorities Highways businesses
Bev Dew	• Drive the implementation of phase 1 of the ERP project • Lead the project to establish a consolidated finance shared services centre • Drive a consistent and rigorous approach to cash management across the Group
Haydn Mursell	• Oversee the effective integration of Mouchel • Drive the focus on senior management succession planning • Drive the winning of new work across the Group
Nigel Turner	• Drive cross-selling within Developments and Property Services so as to increase the Group's overall profitability • Oversee the effective integration of Mouchel into the Services division • Drive operational efficiencies throughout Developments and Property Services
Claudio Veritiero	• Lead the simplification of the Group's portfolio of businesses • Complete the strategic review of Mouchel Business Services • Drive progress against Vision 2020 and measure performance against the KPIs

Annual report on remuneration continued

LTIP awards – performance period ending in 2016
The three-year performance period of the LTIP awards granted on 21 October 2013 ended on 30 June 2016. Further details relating to these awards are set out below.

Performance against the performance conditions of these awards was as follows:

Performance condition	Weighting	Targets	Actual performance	Level of vesting[1]
Cumulative EPS growth	1/3	0% vesting for below 5% p.a. 25% vesting for 5% p.a. 100% vesting for 15% p.a. Straight-line vesting between these points	11% p.a.	23%
TSR outperformance[2]	1/3	0% vesting for below index 25% vesting for performance in line with index 100% vesting for performance in line with index +12% p.a. Straight-line vesting between these points	Index +1.34% p.a.	11%
May Gurney ROCE	1/3	0% vesting below 15% 25% vesting for 15% 100% vesting for 16% Straight-line vesting between these points	Below threshold	–
Total				34%

1 Expressed as a percentage of the maximum opportunity.
2 Against a revenue-weighted index based 75% on the FTSE All Share Construction & Materials Index and 25% on the FTSE All Share Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

The vesting of these awards will result in the allocation of the following numbers of shares:

Director	Maximum number of shares	Number of shares vesting	Value[1]
Nigel Brook	9,749	3,314	£39,801
Bev Dew	–	–	–
Haydn Mursell	39,791	13,528	£162,471
Nigel Turner	11,396	3,874	£46,527
Claudio Veritiero	13,438	4,568	£54,862

1 The value of an award is calculated by multiplying the number of vested shares by the Company's average share price for the three-month period ended 30 June 2016 of £12.01.

Incentive awards made during the 2016 financial year
The following incentive awards were made to each of the Executive Directors during the 2016 financial year:

Award	Basis of award	Director	Face value[1]	Potential award for threshold performance	End of performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP	150% of base salary for the year ended 30 June 2016	Nigel Brook	£525,175	25% of face value	30 June 2018	22 October 2018	n/a	Awards are based 50% on three-year cumulative EPS and 50% on relative TSR performance
		Bev Dew	£562,700					
		Haydn Mursell	£795,650					
		Nigel Turner	£525,175					
		Claudio Veritiero	£525,175					
Deferred shares	1/3 of the net bonus for the year ended 30 June 2015	Nigel Brook	£31,877	n/a	n/a	29 September 2018	n/a	Continued service condition (subject to 'malus')
		Bev Dew	£30,431					
		Haydn Mursell	£81,990					
		Nigel Turner	£42,843					
		Claudio Veritiero	£38,056					
SIP	Matching shares purchased in accordance with the SIP rules	Nigel Brook	£902	n/a	n/a	n/a	n/a	Continued service condition
		Bev Dew	£916					
		Haydn Mursell	£756					
		Nigel Turner	£916					
		Claudio Veritiero	£902					

1 For the LTIP awards, 'face value' is calculated using the market price of a share in the capital of the Company on 21 October 2015 of £13.96. For the deferred share awards, 'face value' is calculated using the market price of a share in the capital of the Company on 28 September 2015 of £13.64. For the SIP, 'face value' is calculated using the total number of shares bought on behalf of the relevant individuals during the 2016 financial year and an average share price for matching share purchases during the year of £13.27.

The performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2016 financial year are set out in the table below. The awards will, subject to the satisfaction of the performance conditions, vest on the third anniversary of the grant date (22 October 2018).

Performance condition	Weighting	Targets
Cumulative EPS growth	50%	0% vesting for below 5% p.a.
		25% vesting for 5% p.a.
		100% vesting for 15% p.a.
		Straight-line vesting between all points
TSR outperformance[1]	50%	0% vesting for performance below index
		25% vesting for performance in line with index
		100% vesting for performance in line with index +12% p.a.
		Straight-line vesting between all points

1 Against a revenue-weighted index based 50% on the FTSE All Share Construction & Materials Index and 50% on the FTSE All Share Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

Payments for loss of office
No payments were made for loss of office during the 2016 financial year.

Payments to past Directors
Steve Bowcott's employment with the Group ceased on 30 April 2015. The details of the payments agreed to be made to Steve are set out on page 90 of last year's Annual Report.

On 6 July 2015, it was announced that Steve had obtained alternative employment with John Sisk & Son, which commenced on 1 September 2015. As a result, the monthly payments to Steve ceased from such date. During the 2016 financial year, the Company paid £406,166 to Steve pursuant to the terms of his settlement agreement. No further payments will be made to Steve.

Annual report on remuneration continued

The Committee agreed that Steve's 2013 and 2014 LTIP awards would be permitted to vest on the respective vesting dates, subject to the satisfaction of their performance conditions and time pro rating up to 30 April 2015. The award granted in October 2013 will vest as to 34%, which will result in Steve receiving 8,267 shares (before deductions for income tax and national insurance contributions). Based on the Company's average share price for the three-month period ended 30 June 2016 of £12.01, the value of such shares is £99,287.

Paul Sheffield's employment with the Group ceased on 30 June 2014. The Committee agreed that the LTIP award granted to Paul in October 2013 would be permitted to vest, subject to the satisfaction of its performance condition and time pro rating up to 30 June 2014. Paul will therefore receive 5,744 shares (before deductions for income tax and national insurance contributions). Based on the Company's average share price for the three-month period ended 30 June 2016 of £12.01, the value of such shares is £68,985.

Directors' shareholdings and share interests

The Committee encourages the Executive Directors to build up a shareholding in the Company of at least two years' base salary, to be accumulated over a period of up to five years. Executive Directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and upon the vesting of LTIP awards until this shareholding has been reached.

The following table sets out details, as at 30 June 2016, of the shareholdings and share interests of those persons (together with, where relevant, the shareholdings and share interests of their connected persons) who, during the 2016 financial year, served as a Director:

	Shares held				Options held				
Director	Owned outright[1] or vested	Vested but subject to a holding period[2]	Unvested and subject to performance conditions[3]	Unvested and subject to continued employment[4]	Vested but not exercised	Unvested and subject to continued employment[5]	Shareholding guideline (% of salary)	Current shareholding (% of salary)[6]	Guideline met?
Justin Atkinson	2,964	–	–	–	–	–	n/a	n/a	n/a
Richard Bailey[7]	2,660	–	–	–	–	–	n/a	n/a	n/a
Kirsty Bashforth	2,019	–	–	–	–	–	n/a	n/a	n/a
Nigel Brook	11,305	3,610	59,653	193	–	1,559	200	44.9	No
Bev Dew	946	2,231	64,982	79	–	1,569	200	8.9	No
Amanda Mellor	1,492	–	–	–	–	–	n/a	n/a	n/a
Haydn Mursell	33,428	10,362	158,828	169	–	–	200	86.9	No
Nigel Turner	24,602	5,081	64,495	169	–	784	200	89.3	No
Claudio Veritiero	7,002	4,434	68,257	192	–	1,847	200	34.4	No
Adam Walker	2,000	–	–	–	–	–	n/a	n/a	n/a
Phil White	4,354	–	–	–	–	–	n/a	n/a	n/a
Nick Winser	5,999	–	–		–	–	n/a	n/a	n/a

1 Comprising legally or beneficially held shares by the relevant Director or their connected person (including partnership shares, dividend shares and matching shares purchased before 30 June 2013 under the SIP – see 'Share Incentive Plan' below).
2 Comprising deferred shares allocated to the relevant Director in connection with annual bonuses. See 'Deferred shares' below.
3 Comprising unvested LTIP awards.
4 Comprising matching shares purchased after 30 June 2013 under the SIP.
5 Comprising options under the SAYE Scheme. See 'Save As You Earn Scheme' on page 74.
6 Calculated based on (i) shares owned outright by the Director or his/her connected persons and (ii) deferred shares allocated to the relevant Director in connection with annual bonuses, using the market price of a share in the capital of the Company on 30 June 2016 of £10.53 and gross base salaries applicable to the year ended 30 June 2016.
7 Richard Bailey retired from the Board on 31 January 2016.

Since 30 June 2016, there have been the following changes in the interests of the Directors (or their connected persons) in the ordinary shares in the capital of the Company:

- On 4 July 2016, Haydn Mursell purchased 4,617 shares;
- On 15 July 2016, Claudio Veritiero acquired 1,072 shares following the exercise of options under the Kier Group plc 2006 Sharesave Scheme; and
- The beneficial interests in ordinary shares acquired by the Executive Directors under the SIP referred to on page 74.

Deferred shares

Those persons who, during the 2016 financial year, served as a Director beneficially owned, at 30 June 2016, the following numbers of shares in the capital of the Company as a result of awards of shares made in each of the years indicated:

Director	2014 award	2015 award	2016 award	Cumulative total 30 June 2016
Nigel Brook	406	867	2,337	3,610
Bev Dew	–	–	2,231	2,231
Haydn Mursell	1,658	2,693	6,011	10,362
Nigel Turner	442	1,498	3,141	5,081
Claudio Veritiero	701	943	2,790	4,434
Date of award	28 October 2013	29 September 2014	29 September 2015	–
Share price used for award[1]	1,785 pence	1,681 pence	1,364 pence	–
End of holding period	28 October 2016	29 September 2017	29 September 2018	–

1 The market price of a share in the capital of the Company from the business day immediately prior to the date of the award, being 25 October 2013, 26 September 2014 and 28 September 2015, respectively.

LTIP awards

Those persons who, during the year ended 30 June 2016, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2016:

Director	2014 award	2015 award	2016 award	Cumulative total 30 June 2015	Cumulative total 30 June 2016
Nigel Brook	9,749	12,284	37,620	33,307	59,653
Bev Dew	–	24,674[1]	40,308	24,674	64,982
Haydn Mursell	39,791	62,042	56,995	163,148	158,828
Nigel Turner	11,396	15,479	37,620	39,436	64,495
Claudio Veritiero	13,438	17,199	37,620	47,385	68,257
Date of award	21 October 2013	22 October 2014[1]	22 October 2015	–	–
Share price used for award[2]	1,781 pence	1,528 pence[1]	1,396 pence	–	–
End of performance period	30 June 2016	30 June 2017	30 June 2018	–	–

1 The award granted to Bev Dew was made on 8 May 2015, using a share price of £15.85, being the market price of a share from the business day immediately prior to the date of the award.

2 The market price of a share from the business day immediately prior to the date of the award.

The performance conditions for the 2014 and 2015 awards are set out in the Annual Reports in respect of the year in which the awards were made. The performance conditions for the 2016 award are set out on page 76.

Share Incentive Plan

Those persons who, during the year ended 30 June 2016, served as a Director beneficially owned the following numbers of shares as a result of purchases under the SIP at 30 June 2016:

Director	Unrestricted shares	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Cumulative total 30 June 2016
Nigel Brook	286	691	141	193	152	1,463
Bev Dew	–	158	5	79	–	242
Haydn Mursell	99	646	113	169	154	1,181
Nigel Turner	1,960	584	358	169	123	3,194
Claudio Veritiero	14	640	93	192	127	1,066

Annual report on remuneration continued

Under the SIP, any amount saved by a participant will be applied by the trustee of the SIP to make monthly purchases of shares on his/her behalf – 'partnership shares'. The Company matches purchases through the SIP (currently at the rate of one free share for every two shares purchased – 'matching shares') and the trustee reinvests cash dividends to acquire further shares on behalf of the participants – 'dividend shares'.

Matching shares which have been purchased within three years of the termination of an individual's employment may, depending on the circumstances of such termination, be forfeited.

'Unrestricted shares' are partnership, dividend and matching shares which were purchased more than five years from the relevant date and can be withdrawn from the SIP trust by the participants without incurring income tax or national insurance liability.

Details of the number of matching shares purchased during the year are set out in the table in the paragraph headed 'Incentive awards made during the 2016 financial year' on page 71. At 21 September 2016, the Company had been notified that the following Directors had acquired beneficial interests in further ordinary shares in the capital of the Company under the SIP since 30 June 2016: Nigel Brook – 58 shares, Bev Dew – 57 shares, Haydn Mursell – 48 shares, Nigel Turner – 58 shares and Claudio Veritiero – 59 shares. Other than the purchase of shares by Haydn Mursell and the acquisition of shares by Claudio Veritiero referred to on page 72, there have been no other changes in the interests of the Directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2016.

Save As You Earn Scheme
Those persons who, during the 2016 financial year, served as a Director had the following options under the Kier Group plc 2006 Sharesave Scheme (the SAYE Scheme) at 30 June 2016:

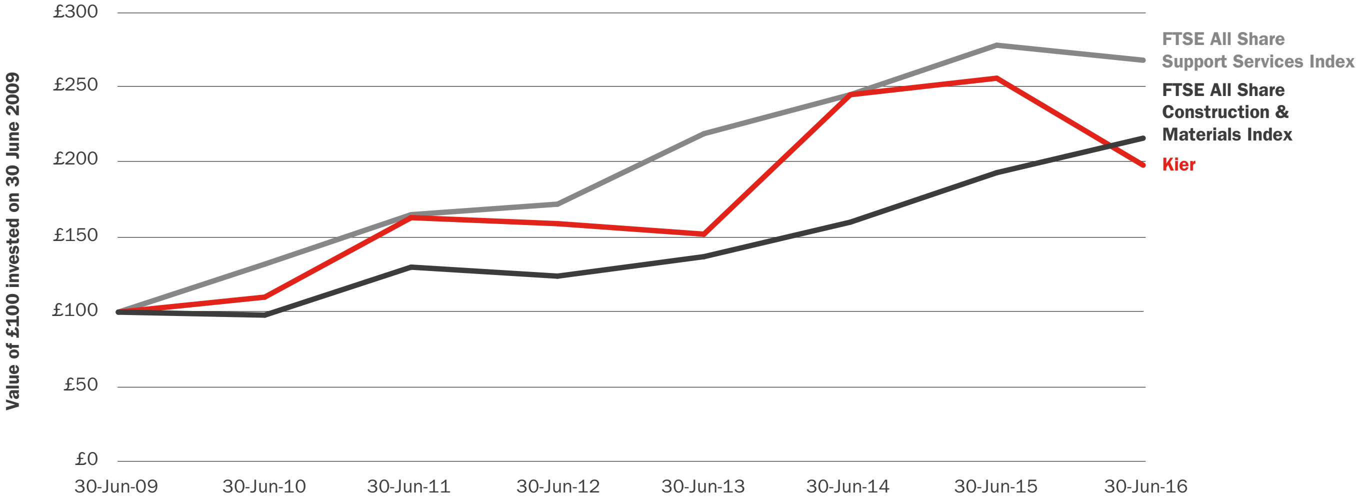
Director	Date granted	Maximum number of shares receivable at 1 July 2015[1]	Awarded during the year[1]	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2016[1]	Exercise price	Exercise period
Nigel Brook	27 April 2012	1,072	–	1,072	–	–	839 pence	1 July 2015 – 31 December 2015
	31 October 2014	775	–	–	–	775	1,159 pence	1 December 2017 – 31 May 2018
	30 October 2015	–	784	–	–	784	1,147 pence	1 December 2018 – 31 May 2019
Bev Dew	30 October 2015	–	1,569	–	–	1,569	1,147 pence	1 December 2018 – 31 May 2019
Nigel Turner	27 April 2012	1,072	–	1,072	–	–	839 pence	1 July 2015 – 31 December 2015
	30 October 2015	–	784	–	–	784	1,147 pence	1 December 2018 – 31 May 2019
Claudio Veritiero	3 May 2013	1,072	–	–	–	1,072[2]	839 pence	1 July 2016 – 31 December 2016
	31 October 2014	775	–	–	–	775	1,159 pence	1 December 2017 – 31 May 2018

1 Assumes that each Director continues to save at the current rate(s) until the commencement of the relevant exercise period.
2 On 15 July 2016, Claudio Veritiero exercised this option in full.

Total shareholder return and Chief Executive's remuneration

Total shareholder return

The graph below shows the value, at 30 June 2016, of £100 invested in shares in the capital of the Company on 30 June 2009, compared with the value of £100 invested in the FTSE All Share Construction & Materials Index and the FTSE All Share Support Services Index. These benchmarks were chosen because they are considered to be the most appropriate against which the TSR of Kier should be measured and represent companies with which Kier competes. They also reflect trends within the UK construction and support services industries generally. The other points plotted are the values at 30 June during the seven-year period.



Chief Executive's remuneration

The table below sets out the total remuneration of the Chief Executive paid with respect to each financial year indicated:

	30 June 2010		30 June 2011	30 June 2012	30 June 2013	30 June 2014	30 June 2015	30 June 2016
Chief Executive	John Dodds	Paul Sheffield	Paul Sheffield	Paul Sheffield	Paul Sheffield	Paul Sheffield	Haydn Mursell	Haydn Mursell
Total single figure (£000)[1]	£1,427	£238	£753	£1,273	£987	£1,099	£1,079	£1,289
Annual bonus[2]	51%	51%	69%	75%	48.8%	67.9%	91.9%	90.0%
Long-term incentive[2]	0%	0%	0%	100%	31.2%	32.7%	0%	34.0%

1 All figures are rounded to the nearest £1,000.
2 As a percentage of maximum opportunity.

Percentage change in the Chief Executive's remuneration

The table below shows the percentage changes in base salary, taxable benefits and annual bonus of the Chief Executive in the 2016 financial year, as compared to the 2015 financial year, together with the approximate comparative average figures for those employees within the Group who were also eligible for salary reviews on 1 July of each year and who were not subject to collective agreements. This section of the employee population (comprising approximately 7,600 individuals across a number of levels within the Group) is considered to be the most appropriate group for the purposes of a comparison, as decisions with respect to these employees are within the control of the Group and are affected by similar external market forces as those which relate to the Chief Executive's remuneration. Approximately 800 employees are eligible to receive a bonus.

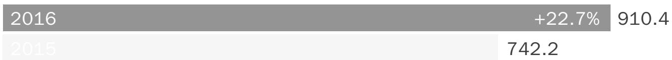
Element of remuneration	Chief Executive change	Other employees change
Base salary	5.0%	5.5%
Taxable benefits	–	6.2%
Annual bonus	2.8%	21.0%

Annual report on remuneration continued

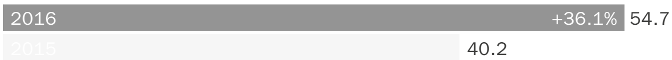
Relative importance of spend on pay

The graph below shows the percentage changes in the total employee expenditure and dividend paid between the 2015 and 2016 financial years:

Total employee expenditure (£m)



Dividend (£m)



Employee remuneration is remuneration paid to or receivable by all employees of the Group and is explained in note 6 to the 2016 consolidated financial statements.

The dividend figures in the chart comprise the dividends paid in the 2015 and 2016 financial years (as stated in note 10 to the 2016 consolidated financial statements), being, respectively, (i) the final dividend for the 2014 financial year and the interim dividend for the 2015 financial year and (ii) the final dividend for the 2015 financial year and the interim dividend for the 2016 financial year.

Implementation of the remuneration policy for the 2017 financial year

Executive Directors' base salary

The base salaries of the Executive Directors are, with effect from 1 July 2016, as follows:

Director	From 1 July 2015	From 1 July 2016	Increase
Nigel Brook	£350,000	£364,000	4.0%
Bev Dew	£375,000	£390,000	4.0%
Haydn Mursell	£530,250	£590,000	11.3%
Nigel Turner	£350,000	£364,000	4.0%
Claudio Veritiero	£350,000	£364,000	4.0%

Annual bonus

The maximum annual bonus opportunity for each Executive Director will remain at 100% of base salary for the 2017 financial year, of which a maximum of 50% will relate to profit performance, a maximum of 40% to cash/net debt performance and 10% to health and safety targets. The targets, and performance against them, will be disclosed in further detail in next year's Annual Report. One-third of the net bonus will be satisfied on allocation of shares, deferred for three years.

LTIP awards

The Executive Directors will be granted LTIP awards of 150% of base salary. The performance conditions (and respective weightings) and targets for the LTIP awards which will be granted during the 2017 financial year are set out in the table below. The awards will, subject to the satisfaction of the performance conditions, vest on the third anniversary of their grant.

Performance condition	Weighting	Targets
Cumulative EPS growth	50%	As per 2016
TSR outperformance[1]	25%	As per 2016
Net debt:EBITDA[2]	25%	0% vesting for above 1.05:1
		25% vesting for 1.05:1
		62.5% vesting for 1:1
		100% vesting for 0.95:1
		Straight-line vesting between all points

1 Against a revenue-weighted index based 50% on the FTSE All Share Construction & Materials Index and 50% on the FTSE All Share Support Services Index (representing the Group's approximate prior year revenue mix at the date of grant).

2 Net debt:EBITDA performance will be measured by taking the average (mean) position as at 30 June 2017, 2018 and 2019.

The Group has committed to a medium-term net debt:EBITDA ratio of 1.0 in Vision 2020. The Committee is satisfied that the average ratios set out above over the three-year period ending 30 June 2019 are appropriately challenging in light of the level of investment which will be required to deliver (i) Vision 2020 and (ii) the existing EPS performance condition in the LTIP.

Pension and taxable benefits

The Executive Directors will receive a pension contribution of 20% of salary, subject to the annual allowance, with the balance being paid as a cash allowance. The Executive Directors will also receive private health insurance and either a company car or a car allowance of £11,900 per annum. Both amounts remain unchanged from the 2016 financial year.

Non-Executive Directors' fees

The Board previously agreed that the fee structure which would apply to the Non-Executive Directors (excluding the Chairman) for the two years from 1 July 2015 would be as follows:

Director	From 1 July 2015
Non-Executive Director	£50,000
Chair of Board committee	£10,000
Senior Independent Director	£10,000

The Committee also agreed that, following an increase in the Chairman's fee of 8.7% to £188,000 with effect from 1 July 2015, there would be no increase from 1 July 2016. The Chairman does not receive a fee for his work as the Chair of the Nomination Committee. Accordingly, there were no increases in the fees payable to the Non-Executive Directors (including the Chairman) from 1 July 2016.

The total fees payable to the Non-Executive Directors with effect from 1 July 2016 are as follows:

Director	Base fee from 1 July 2016	Chair of Board committee fee from 1 July 2016	Senior Independent Director fee from 1 July 2016	Total from 1 July 2016	Increase from 1 July 2016
Justin Atkinson	£50,000	–	£10,000	£60,000	–
Constance Baroudel[1]	£50,000	–	–	£50,000	–
Kirsty Bashforth	£50,000	–	–	£50,000	–
Amanda Mellor[2]	£50,000	£10,000	–	£60,000	–
Adam Walker	£50,000	£10,000	–	£60,000	–
Phil White	£188,000	–	–	£188,000	–
Nick Winser	£50,000	£10,000	–	£60,000	–

1 Subject to her election as a Director at the 2016 AGM, Constance Baroudel will also be appointed as the Chair of the Remuneration Committee and will receive an annual fee of £10,000 for the role.
2 Amanda Mellor will not stand for re-election at the 2016 AGM.

Remuneration Committee

Membership and meeting attendance

The members of the Committee at 30 June 2016 were:

- Amanda Mellor (Chair)
- Adam Walker
- Justin Atkinson
- Phil White
- Kirsty Bashforth
- Nick Winser

The Chief Executive is invited, from time to time, to attend Committee meetings. No individuals are involved in decisions relating to their own remuneration. The Committee met formally six times during the year. The secretary of the Committee is the Company Secretary. The Committee's terms of reference can be viewed on the Company's website at https://www.kier.co.uk/corporategovernance.

Advisers

During the 2016 financial year, Mercer was engaged by the Committee as its remuneration advisers.

Mercer provides advice in respect of the Mouchel Superannuation Fund. However, the Committee is satisfied that Mercer, in providing remuneration advice to the Committee, did not have any connection with the Company that impaired its independence. Total fees of £73,895 (excluding VAT) were payable in respect of Mercer's services during the 2016 financial year. Mercer is a signatory to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group.

The Committee also receives support and advice from the Company Secretary (Hugh Raven) and the Group HR Director (Chris Last).

Shareholder voting

At the 2015 AGM, the results of the vote on the resolution relating to the Remuneration Report were:

Votes for[1]	Percentage votes for	Votes against[2]	Percentage votes against	Votes withheld
59,015,627	98.50	895,892	1.50	412,868

1 Includes those votes for which discretion was given to the Chairman.
2 Does not include votes withheld.

At the 2014 AGM, the results of the vote on the resolution relating to the remuneration policy were:

Votes for[1]	Percentage votes for	Votes against[2]	Percentage votes against	Votes withheld
31,687,997	98.87	361,173	1.13	115,415

1 Includes those votes for which discretion was given to the Chairman.
2 Does not include votes withheld.

Directors' remuneration policy (summary)

Introduction

Kier's remuneration policy, which was approved at the 2014 AGM, will continue to apply in the 2017 financial year. Accordingly, we will not be seeking shareholder approval for a revised policy at the 2016 AGM.

As it did last year, the Committee has decided to include the policy table and certain other extracts from the policy in this year's report for ease of reference and so as to provide context for the decisions taken by the Committee during the year. Where relevant, references to targets in the policy have been updated to refer to 2017 targets, together with certain other non-material changes. The full policy is set out on pages 69 to 76 (inclusive) of the 2014 Annual Report, which can be found on Kier's website at http://www.kier.co.uk/annualreport2014.

A summary of the Group's policy for each element of an Executive Director's remuneration is set out in the table below:

Policy table

Element and link to strategy	Operation
Base salary To attract and retain Executive Directors of the calibre required to deliver the Group's strategy.	Salaries are reviewed annually by reference to an individual's experience, performance and role within the Group, the external market (including FTSE companies of a similar size and sector peers) and any increase awarded to the wider employee population. Any increase is typically effective from 1 July.
Benefits To provide benefits which are competitive with the market.	Benefits are reviewed from time to time and typically include, but are not limited to, a company car or car allowance, private health insurance and life assurance. In certain circumstances, the Committee may also approve the provision of additional benefits or allowances – for example, the relocation of an Executive Director to perform his or her role.
SAYE Scheme To encourage ownership of the Company's shares.	An HMRC-approved scheme allowing all employees, including Executive Directors, to save up to the maximum limit specified by HMRC rules. Options are granted at up to a 20% discount.
SIP To encourage ownership of the Company's shares.	An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate. The plan allows employees to purchase shares out of pre-tax income. The Company may match shares purchased with an award of free shares. Matching shares may be forfeited if employees leave within three years of their award, in accordance with the SIP rules. The plan trustee can reinvest cash dividends to acquire further shares on behalf of participants.
Pension To provide a retirement benefit which is competitive with the market.	Executive Directors participate in a defined contribution scheme.
Annual bonus To reward the delivery of near-term performance targets and business strategy.	The Company operates a discretionary bonus scheme. Performance measures and targets are set by the Committee at the start of the year. Payments are based on an assessment of performance at the end of the year. One-third of any award is deferred for three years (subject to early release for 'good leavers') and satisfied in Kier Group plc shares. Past awards of deferred shares are subject to forfeiture if an individual's employment is terminated in circumstances of gross misconduct and/or justifying summary dismissal and/or the Group's profit before tax or cash position for the relevant year is found to have been misstated. Awards of deferred shares made from 2014 will include a revised 'malus' provision. See 'Malus' on page 82. Dividend payments accrue on deferred bonus shares over the deferral period.

Opportunity	Performance measures
Any increase will typically be in line with those awarded to the wider employee population. The Committee has discretion to award higher increases in circumstances that it considers appropriate, such as a material change in the complexity of the business or an individual's responsibility. Details of salary changes will be disclosed in the Annual Report.	Continued strong performance.
Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.
The maximum amount that may be saved is the limit prescribed by HMRC (or such other lower limit as determined by the Committee) at the time employees are invited to participate in the scheme. Typically, employees are invited to participate on an annual basis.	None.
Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Committee) at the time they are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased.	None.
For current Executive Directors, the maximum employer contribution is 20% of pensionable salary. Executive Directors may elect to receive all or part of the employer contribution as a taxable cash supplement.	None.
The current maximum potential bonus is 100% of base salary. 'Threshold' performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee at the start of each financial year. The level of bonus for achieving threshold performance varies by performance measure, and may vary for a measure from year to year, to ensure that it is aligned with the Committee's assessment of the degree of difficulty (or 'stretch') in achieving it.	The performance measures and targets for the 2017 financial year are profit (50%), cash (40%) and health and safety (10%). The Committee has discretion to determine the measures and their relative weightings each year. The weighting towards non-financial measures will be no higher than 25% of the maximum potential bonus. The Committee has discretion to adjust bonus payments to ensure that they accurately reflect business performance over the performance period and are fair to shareholders as well as recipients. Actual targets for each performance measure (and performance against each of these targets), and any use by the Committee of its discretion with respect to bonus payments, will be disclosed in the Annual Report immediately following the end of the performance period.

Directors' remuneration policy (summary) continued

Policy table continued

Element and link to strategy	Operation
LTIP To reward the sustained strong performance by the Group over three years.	Awards are made annually and vest, subject to the achievement of performance conditions, at the end of a three-year performance period. At the start of each performance period, the Committee sets performance targets which it considers to be appropriately stretching. Awards are satisfied in the form of a deferred, contingent right to acquire shares in the Company, at no cost to the individual. LTIP awards granted from 2014 will include a 'malus' provision. See 'Malus' on page 82. If an event or series of events occurs as a result of which the Committee deems it fair that the performance conditions should be waived or modified, the Committee has discretion during the vesting period to waive or modify them. Any modified performance conditions must be no more difficult to satisfy than the original performance conditions were when first set. Any use of Committee discretion with respect to waiving or modifying performance conditions will be disclosed in the relevant Annual Report.

Opportunity	Performance measures
The maximum award under the rules of the plan is 200% of base salary. The Committee may grant awards of up to the maximum permitted under the LTIP rules when it considers it appropriate to do so. The reasons for an award in excess of 150% of salary will be disclosed in the relevant Annual Report. On achieving the threshold performance level for each element of the award, 25% of the relevant element of the award will vest. Vesting is on a straight-line basis between threshold and maximum levels of performance.	The performance conditions for the LTIP awards to be awarded in the 2017 financial year will relate to EPS (50%), TSR (25%) and net debt:EBITDA (25%). EPS performance is measured by compound cumulative growth over the performance period. TSR outperformance is measured on a multiplicative basis relative to a revenue-weighted index based on the FTSE All Share Construction & Materials Index and the FTSE All Share Support Services Index. If TSR outperformance is used in future award cycles, the revenue weightings will be fixed based on the Group's approximate revenue mix in the year prior to grant. The Committee retains discretion to supplement EPS and TSR with additional performance measures to ensure that the awards are always linked to sustained business performance. No measure will carry a weighting of less than 25%. Actual performance measures and weightings will be disclosed in the Annual Report immediately following the granting of an award.

Directors' remuneration policy (summary) continued

Payments from outstanding awards
The Company will honour any commitment entered into, and Executive Directors will be eligible to receive payment from any award made, prior to the approval and introduction of the remuneration policy with effect from the AGM on 13 November 2014.

Notes to the policy table
'Malus'
Deferred annual bonus awards made before 2014 include the 'malus' provision described in the table above, whereas deferred annual bonus and LTIP awards granted from 2014 onwards are and will be subject to revised 'malus' provisions.

These allow the Committee to determine, in its absolute discretion, that (i) an unvested LTIP award (or part of an award) may not vest or that the level of vesting is reduced and/or (ii) the number of deferred shares (allocated in part satisfaction of the annual bonus) is reduced (including to nil) in certain circumstances. Examples of such circumstances include, but are not limited to:

- A material misstatement of the Group's financial statements;
- A material error in determining the level of satisfaction of a performance condition or target;
- A participant deliberately misleading the Company, the market and/or shareholders in relation to the financial performance of the Group; and
- A participant's employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal.

The Committee has the right to apply the 'malus' provision to an individual or on a collective basis.

Executive Director shareholding guidelines
The Committee encourages Executive Directors to accumulate a shareholding in the Company of at least two years' base salary over a period of up to five years. Executive Directors are encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until they reach this level of shareholding.

Selection of performance measures and approach to setting targets
The measures used for the annual bonus are determined annually to reflect KPIs which are considered important and relevant to the Group. The Committee believes that using a number of measures provides a balanced incentive. The measures themselves are aligned to, and are designed to support the delivery of, the Group's strategy.

In relation to the LTIP awards, the Committee believes that the combination of EPS, TSR and net debt:EBITDA clearly aligns performance to shareholders' interests and the Group's long-term strategy. EPS is a key measure of long-term underlying performance of the Group. TSR is intended to measure management's contribution to the creation of value for shareholders. A revenue-weighted index based on the FTSE All Share Construction & Materials Index and FTSE All Share Support Services Index reflects the Group's mix of business. Cash (and, therefore, net debt) is an important financial measure in the contracting sector. In future years, the Committee may decide to select other performance measures.

Targets for the annual bonus and the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points. The Committee intends that targets will be stretching but achievable and will align management's interests with those of shareholders.

Differences from remuneration policy for other employees
Kier's approach to setting annual remuneration is broadly consistent across the Group. Consideration is given to the experience, performance and responsibilities of individuals as well as publicly available external benchmarking data, to the extent considered necessary or appropriate. Certain grades of senior employees are eligible to participate in an annual bonus scheme with similar performance measures to those used for the Executive Directors. Maximum opportunities and specific performance measures vary by seniority, with business-specific measures applied where appropriate. Senior managers (currently, approximately 250 individuals) are also eligible to participate in the LTIP. The performance measures for each LTIP award cycle are typically the same for all participants (although the rules of the LTIP permit the Committee to grant LTIP awards using different performance measures). Award sizes vary according to seniority and responsibility.

Approach to remuneration on recruitment

External appointment

When recruiting a new Executive Director from outside the Group, the Committee may make use of all the existing components of remuneration. In addition, the Committee may consider it appropriate to grant an award under an alternative scheme or arrangement in order to facilitate recruitment of an individual, subject to the policy set out below:

Component	Approach
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, experience and skills of the individual, internal relativities and the appointee's current base salary. Where a new appointee has an initial base salary set below the market median, any subsequent adjustment will be managed by the Committee, using (where appropriate) phased increases and subject to the individual's development in the role.
Benefits	New appointees will be eligible to receive benefits in line with the remuneration policy, which may also include (but are not limited to) any necessary expenses relating to expatriation or relocation on recruitment.
SAYE Scheme	New appointees will be eligible to participate on the same terms as all other employees.
SIP	New appointees will be eligible to participate on the same terms as all other employees.
Pension	New appointees will receive pension contributions of up to 20% of pensionable salary into a defined contribution pension arrangement or an equivalent taxable cash supplement or a combination of both.
Annual bonus	The annual bonus structure described in the remuneration policy will apply to new appointees (including the maximum opportunity), pro rated in the year of joining to reflect the proportion of that year employed. One-third of any bonus earned will be deferred into shares.
LTIP	New appointees may be granted awards under the LTIP of up to 200% of salary, as contemplated by the remuneration policy.
'Buy-out' awards	The Committee may consider it appropriate to grant a 'buy-out' award (with respect to either a bonus or a share-based incentive scheme) under an alternative scheme or arrangement in order to facilitate the recruitment of an individual. When doing so, the Committee may, to the extent required, exercise the discretion available under Listing Rule 9.4.2. Any such 'buy-out' award would have a fair value of no higher than that of the award forfeited. In granting any such award, the Committee will consider relevant factors, including any performance conditions attached to the forfeited awards, the likelihood of those conditions being met and the proportion of the vesting period remaining.

When considering any performance conditions, the Committee will, where appropriate, take into account those used in the Company's own incentive arrangements. Where appropriate, the Committee will also consider whether it is necessary to introduce further retention measures for an individual – for example, extended deferral periods.

In determining an appropriate remuneration package, the Committee will take into consideration all relevant factors to ensure that the arrangements are in the best interests of the Company's shareholders.

Internal promotion

When recruiting a new Executive Director through internal promotion, the Committee will set remuneration in a manner consistent with the policy for external appointments set out above (other than with respect to 'buy-out' awards). Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these commitments.

The remuneration of individuals below the Board is typically not greater than for Executive Directors.

Directors' remuneration policy (summary) continued

Service contracts

A summary of the key elements of the Executive Directors' service agreements (insofar as they relate to remuneration) is as follows:

Term of contract	Summary of provisions
Notice period	12 months' notice (both to and from the Executive Director).
Payment in lieu of notice (PILON)	Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, accrued (but untaken) holiday entitlement, pension contributions or allowance, car allowance and private medical insurance. The Company is entitled to make the PILON on a phased basis, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.
Change of control	There are no payments due upon a change of control, although deferred bonus will be released.
Entitlements on termination	There is no contractual entitlement to notice or any other payments in respect of the period after cessation of employment in circumstances in which the individual is summarily dismissed. In such circumstances, deferred bonus shares will be forfeited and LTIP awards will lapse. If the individual is not a 'bad leaver' (and any 'malus' provision is not applied), deferred bonus shares will be released upon cessation of employment and the position with respect to LTIP awards is as set out under 'Payments for loss of office' below. If not required to take any remaining holiday entitlement during his/her notice period, the Executive Director will receive a payment for any accrued (but untaken) holiday entitlement.

It is expected that these terms will apply to any service agreements entered into with Executive Directors during the period in which this remuneration policy will apply.

Payments for loss of office

The Company's policy on payments for loss of office is as follows:

Component	Approach
Annual bonus	Individuals who are considered to be 'good leavers' may be considered for a bonus in relation to the year in which their active employment ceases. Any payment will normally be pro rated for length of service and performance during the year. However, the Committee retains the discretion to review the performance of the individual and the Group in general and, having done so, determine that a different level of bonus payment would be appropriate. Deferred shares allocated in part satisfaction of annual bonuses may be released to an individual upon cessation of employment if (s)he is considered to be a 'good leaver'. Otherwise, they will be released at the end of the three-year holding period.
LTIP	If an Executive Director's employment ceases for reasons of death, ill-health, injury, disability, retirement with the agreement of the Company or his/her employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding awards are retained. The Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis or alternatively be retained until the vesting date. Unvested LTIP awards will, subject to Committee discretion, normally be pro rated for length of service during the performance period and will, subject to performance, normally vest at the same time as all other awards in the LTIP award cycle. A 'malus' provision also applies to all LTIP awards granted from 2014. For all other leavers, outstanding LTIP awards automatically lapse, unless the Committee exercises its discretion otherwise (taking into account the factors detailed immediately following this table).
SIP and SAYE Scheme	The Executive Directors are subject to the same 'leaver' provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.
Other	If the Company terminates an Executive Director's employment by reason of redundancy, the Company will make a redundancy payment to the Executive Director in line with his service agreement, any applicable collective bargaining agreement and applicable law and regulation. The Company may make a contribution towards an Executive Director's legal fees for advice relating to a compromise or settlement agreement and may also make other payments connected to the departure – for example, for outplacement services. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.
Change of control	Deferred bonus shares will be released, any outstanding LTIP awards may vest early (subject to the Committee's discretion, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant) and the rules of the SIP and the SAYE Scheme will apply. No payments are due under the Executive Directors' service agreements upon a change of control.

Where appropriate, the Committee will oblige the individual to mitigate his/her losses and either offset any alternative remuneration received by the individual against any payments made by the Company for loss of office or reduce any payments to be made by the Company for loss of office to take account of any failure to mitigate when, in the reasonable opinion of the Committee, the individual has failed actively to do so.

In exercising discretion in respect of any of the elements referred to above, the Committee will take into account all factors which it considers to be appropriate at the relevant time. These include, but are not limited to: the duration of the Executive Director's service; the Committee's assessment of the Executive Director's contribution to the success of the Group; whether the Executive Director has worked any notice period or whether a payment in lieu of notice is being made; the need to ensure an orderly handover of duties; and the need to compromise any claims which the Executive Director may have. Any use of Committee discretion will be disclosed in the relevant annual report on remuneration.

Consideration of employment conditions elsewhere in the Group

Employees are not formally consulted on the Executive Directors' remuneration and were not consulted during the preparation of the remuneration policy set out above. However, the Group's employee engagement survey provides an opportunity for employees to provide their opinion on their own remuneration arrangements (and also on other matters across the Group).

The Committee takes into account the overall pay and employment conditions of employees within the Group when making decisions on the Executive Directors' remuneration. Accordingly, the Committee (i) is provided with information about the proposed annual Group-wide pay review when setting the Executive Directors' salaries, (ii) is made aware of the approximate outcomes of annual bonuses and (iii) sets the LTIP performance targets which typically apply to all participants in the annual LTIP award cycle.

Consideration of shareholder views

The views of shareholders, and guidance from shareholder representative bodies, are important to the Committee and provide the context for setting the remuneration of the Executive Directors.

The Committee intends to review the remuneration policy during the 2017 financial year and will consult with shareholders if it decides that material changes need to be made to it.

Non-Executive Director remuneration policy

General

The Non-Executive Directors' remuneration (including that of the Chairman) reflects the anticipated time commitment to fulfil their duties. Non-Executive Directors do not receive bonuses, long-term incentive awards, a pension or compensation on termination of their appointments. The policy on Non-Executive Directors' fees is as follows:

Element and link to strategy	Operation	Opportunity	Performance measures
Fees To attract and retain Non-Executive Directors of the calibre required and with appropriate skills and experience.	Fee levels are reviewed annually with reference to individual experience, the external market and the expected time commitment required of the Director. Additional fees are payable to the Chairs of the Board's committees and to the Senior Independent Director.	Fees may be increased in line with the outcome of the annual review and will not normally exceed the increase awarded to the wider employee population. Higher increases may be awarded should there be a material change to the requirements of the role, such as additional time commitment. Any changes to fees will be disclosed in the annual report on remuneration for the relevant year.	Continued strong performance.

Recruiting Non-Executive Directors

When recruiting a new Non-Executive Director, the Committee will follow the policy set out in the table above.

Directors' Report

Introduction
This Directors' Report and the Strategic Report collectively comprise the 'management report' for the purposes of Disclosure and Transparency Rule 4.1.5R.

Information incorporated by reference
As permitted by legislation, the following information is incorporated by reference in this report:

Information	Reported in	Page number(s)
Corporate governance	Corporate Governance Statement	46 to 65 (inclusive)
	Statement of Directors' responsibilities	88
Directors	Board of Directors	52 and 53
	Remuneration Report – Directors' shareholdings and share interests	72
Financial instruments	Financial Statements – note 27	132 to 134 (inclusive)
Going concern	Board statements	48
Greenhouse gas emissions	Resources and relationships	24
Important events since the end of the financial year	Chief Executive's strategic review	6 to 9 (inclusive)
Likely future developments	Strategic Report	1 to 45 (inclusive)
Results and dividends	Chairman's statement	5

Political donations
The Company made no political donations during the year (2015: nil).

Research and development
The Group undertakes research and development activities when providing services to its clients. The direct expenditure incurred is not readily identifiable, as the investment is typically included in the relevant project.

Employees
The companies in the Group are equal opportunities employers. The Group considers applications for employment from disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during their employment.

The Group provides information to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. The Group also conducts engagement surveys to obtain feedback on matters of importance to employees.

The Group operates the Kier Group plc 2006 Sharesave Scheme (the SAYE Scheme) for eligible employees and a Share Incentive Plan (the SIP) for all employees, which includes a share-matching element. The Group also makes available a dealing service to enable employees to buy and sell its shares.

Share capital
As at 30 June 2016, the issued share capital of the Company comprised a single class of ordinary shares of 1 pence each. At that date, 96,067,463 shares in the capital of the Company were in issue. During the year, 372,607 shares were issued in relation to the scrip dividend alternative and 535,609 shares were issued in connection with the SAYE Scheme.

Subject to the provisions of the articles of association of the Company (the Articles) and the Companies Act 2006 and other applicable legislation, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the Directors may decide.

Restrictions on transfer of securities in the Company
There are no restrictions on the transfer of securities in the Company, other than those that are set out in the Articles or apply as a result of the operation of law or regulation.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the Company.

Substantial holdings
As at 21 September 2016, the Company had been notified of the following interests in the share capital of the Company (being voting rights over such share capital), pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Shareholder	Interest[1]
Standard Life Investments (Holdings) Limited	11.6%
BlackRock, Inc	below 5%
Schroders plc	4.8%

[1] Subject to rounding.

Securities carrying special rights
No person holds securities in the Company carrying special rights with regard to control of the Company.

Rights under employees' share schemes
As at 30 June 2016, RBC Trustees (Guernsey) Limited (RBC), as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 281,029 shares (approximately 0.29% of the Company's issued share capital). These shares are made available to satisfy the vesting of LTIP awards and awards of shares to senior management as part of the annual bonus arrangements. RBC does not exercise any voting rights in respect of shares held by the trust. RBC waives its rights dividends in respect of such shares, other than those relating to the annual bonus arrangements.

As at 30 June 2016, Yorkshire Building Society (YBS) held 1,089,225 shares (approximately 1.13% of the Company's issued share capital) on trust for the benefit of members of the SIP. At the same date, YBS also held 16,346 shares (0.02% of the issued share capital) on trust for the benefit of members of the legacy May Gurney Share Incentive Plan. YBS does not exercise any voting rights in respect of the shares held by the trust. YBS distributes dividends received to beneficiaries under the trust (although beneficiaries may authorise YBS to vote in accordance with their instructions).

As at 30 June 2016, the trustee of the May Gurney Limited Employee Share Ownership Trust and the trustee of the May Gurney Integrated Services PLC Employee Benefit Trust held, respectively, 226,115 and 19,045 shares (in aggregate, approximately 0.26% of the Company's issued share capital).

These shares are made available to satisfy awards of shares under the Group's remuneration arrangements. Neither trustee exercises any voting rights in respect of shares held by their respective trust and each waivers dividends payable with respect to such shares.

Restrictions on voting rights
No shareholder will, unless the Board otherwise determines, be entitled to vote at any general meeting unless all calls or other sums then payable by it in respect of that share have been paid or if that shareholder has been served with a disenfranchisement notice.

The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights.

Appointment and replacement of Directors
Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next AGM of the Company after his/her appointment and is then eligible to stand for election.

At each AGM of the Company, one-third of the Directors are required to retire by rotation and may offer themselves for re-election by the members. However, at the forthcoming AGM of the Company all the Directors will offer themselves for re-election in accordance with the UK Corporate Governance Code and the Company's current policy. Please see pages 52 and 53 for further information about the Directors' skills and experience and pages 54 and 55 headed 'Effectiveness'.

The Company may by ordinary resolution, of which special notice has been given, remove any Director before the expiry of the Director's period of office.

Amendment of Articles
The Articles may be amended by a special resolution of the Company's shareholders.

Powers of the Directors
Subject to the Articles, the Companies Acts and any directions given by shareholders, the Company's business is managed by the Board, which may exercise all the powers of the Company.

Powers in relation to the Company issuing its shares
The Directors were granted authority at the AGM on 12 November 2015 to allot shares in the Company (i) up to an aggregate nominal amount of £318,773 and (ii) up to an aggregate nominal amount of £637,467 in connection with a rights issue. The Directors were also granted authority to allot shares non-pre-emptively and wholly for cash up to an aggregate nominal amount of £95,620.

In addition, at the 2013 AGM, an ordinary resolution was approved which grants the Directors the authority to continue to offer the scrip dividend alternative.

Powers in relation to the Company buying back its shares
The Company may only buy back shares if the Articles do not prohibit it from doing so and it has received the requisite authority from shareholders in general meeting. Although the Articles do not contain any such prohibition, the Company did not request any such authority at its last AGM and does not propose to do so at the forthcoming AGM.

Change of control
The Group's loan facility agreements with its UK lending banks, the note purchase agreements entered into in 2012 and 2014 in connection with the Group's US private placements of notes and the Schuldschein loan agreements entered into in May and June 2016 each contain provisions under which, in the event of a change of control of the Company, the Company may be required to repay all outstanding amounts borrowed.

Certain of the Group's commercial arrangements, including certain of its joint venture agreements, contract bond agreements and other commercial agreements entered into in the ordinary course of business, include change of control provisions.

Certain of the Group's employee share schemes contain provisions relating to a change of control of the Company. Outstanding options and awards may become exercisable or vest upon a change of control.

There are no agreements between the Company and the Directors providing for compensation for loss of office that occurs as a result of a takeover bid (other than those referred to above).

Branches
Because the Group is a global business, it has activities which operate through branches in certain jurisdictions.

Auditor
The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditor for the financial year ending 30 June 2017 and a resolution relating to this re-appointment will be tabled at the forthcoming AGM.

AGM
The Company's 2016 AGM will be held at 12 noon on 18 November 2016 at the Andaz Hotel, 40 Liverpool Street, London, EC2M 7QN.

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

Hugh Raven
Company Secretary

21 September 2016

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Statement of Directors' responsibilities

Introduction
The Directors are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare the Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS') and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law ('UK Generally Accepted Accounting Practice').

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- For the Group financial statements, state whether they have been prepared in accordance with IFRS;
- For the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 and, with respect to the Group financial statements, Article 4 of the IAS Regulation.

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing the Strategic Report, the Directors' Report, the Remuneration Report and the Corporate Governance Statement and for ensuring that these comply with applicable laws and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement
Each of the Directors, whose names and functions are set out on pages 52 and 53, confirms that to the best of his or her knowledge:

- The financial statements contained in this Annual Report, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and
- The management report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure to auditors
Each Director who holds office at the date of approval of this Directors' Report confirms that, so far as each such Director is aware, there is no relevant audit information of which the auditor is unaware; and the Directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Signed on behalf of the Board by:

Haydn Mursell
Chief Executive

Bev Dew
Finance Director

21 September 2016