KIER

INVEST BUILD MAINTAIN

Delivering a better working world

Kier Group plc

Annual Report and Accounts 2017

Financial Highlights

Good results reflecting the strength of the underlying business

Group revenue[1,2,3] (£bn)

£4.1bn

17	4.1
16	4.0
15	3.3
14	2.9
13	1.9

Underlying profit before tax[1,2,3] (£m)

£126.1m

17	126.1
16	116.4
15	89.8
14	74.1
13	45.7

Underlying earnings per share[1,2,3] (p)

106.8p

17	106.8
16	99.5
15	101.6
14	88.1
13	91.1

Dividend per share (p)

67.5p

17	67.5
16	64.5
15	55.2
14	57.6
13	54.3

Order book[3,5] (£bn)

£9.5bn

17	9.5
16	8.5
15	9.1
14	6.2
13	4.3

Net (debt)/cash balances[4] (£m)

£(110)m

17	(110)
16	(99)
15	(141)
14	(123)
13	60

Reported profit/(loss) before tax[1,3] (£m)

£25.8m

17	25.8
16	(34.9)
15	19.9
14	15.2
13	25.7

Reported basic earnings/(loss) per share[1,3] (p)

15.3p

17	15.3
16	(25.7)
15	12.6
14	15.3
13	51.7

1 Continuing operations.

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

3 Prior year comparatives have been restated to reflect the reclassification of UK Mining as continuing operations and Mouchel Consulting and Biogen as discontinued operations.

4 Net debt is stated after the impact of hedging instruments.

5 Including £0.6bn from McNicholas acquired post year end.

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Kier is a leading investor, builder and maintainer of the UK's essential assets. We operate across a wide range of sectors including defence, education, health, highways, housing, industrial, power, property, transport and utilities.

We offer our clients access to specialist expertise supported by a breadth of capabilities.

Bristol

Strength and breadth of capabilities

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

Our vision

Our vision is to be a world-class, customer-focused company that invests in, builds, maintains and renews the places where we live, work and play.

Our values

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

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

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

We have a breadth of capabilities

Property

Turn to pages 42-43 for more information

Our property development and financing business operates across the UK.

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

10-year
visibility of pipeline

Capabilities

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

Residential

Turn to pages 44-45 for more information

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

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

2,200
new homes built in 2016/17

Capabilities

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

Construction

Turn to pages 46-47 for more information

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

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

50/50
public and private sector presence

Capabilities

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

Services

Turn to pages 48-51 for more information

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

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

No. 1
in strategic highways

Capabilities

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

Our unique investment proposition combines a record of performance with strong market positions, established client relationships and capital recycling.

Market positions

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

Long-term client relationships

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

Specialist expertise and collaborative working

- Breadth of capabilities that clients can draw upon
- Ability to provide a unique package of services
- Delivered in collaboration

Efficient capital and resource model

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

Robust financials

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

We have the capabilities to invest, build and maintain any asset class in the UK

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

What we deliver for our customers

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

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

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

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

Invest

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

Build

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

Maintain

Kier works with clients to manage and develop their assets. A focus on working in collaboration on defined outputs ensures Kier delivers the added value clients seek.

Manchester City Centre

Across our market positions

The following pages provide a snapshot of our market positions and opportunities in those markets.

Leading builder

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

>£1.8bn
Revenue

Turn to pages 46-47 for more information

Leading infrastructure player

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

>£1.5bn
Revenue

Turn to pages 46-51 for more information

Leading provider of mixed tenure housing

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

>£800m
Revenue

Turn to pages 44-45 for more information

Our market positions: Building

Delivering buildings that improve the quality of life

Kier is the UK's largest builder with the capability to deliver projects ranging in size from hundreds of thousands of pounds to hundreds of millions of pounds.

A large and varied market

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

Healthcare construction services market

Source: NHS Digital 2016, ONS

Turn to pages 20-21 for more information

Growing from strength

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

Broadmoor Hospital, Berkshire

Client benefit

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

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

Enabling our delivery

Client focus

Understanding specialised requirements for secure builds

Collaboration

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

Technology

Utilising Kier's Building Information Modelling (BIM) capability to improve the sequence of delivery and installation of pre-cast sections

Turn to pages 46-47 for more information

Image courtesy of West London Mental Health NHS Trust

Our market positions: Infrastructure

Delivering critical infrastructure and supporting services

The UK Government has acknowledged that investment in infrastructure is critical to supporting economic prosperity for a growing population.

Significant infrastructure opportunities

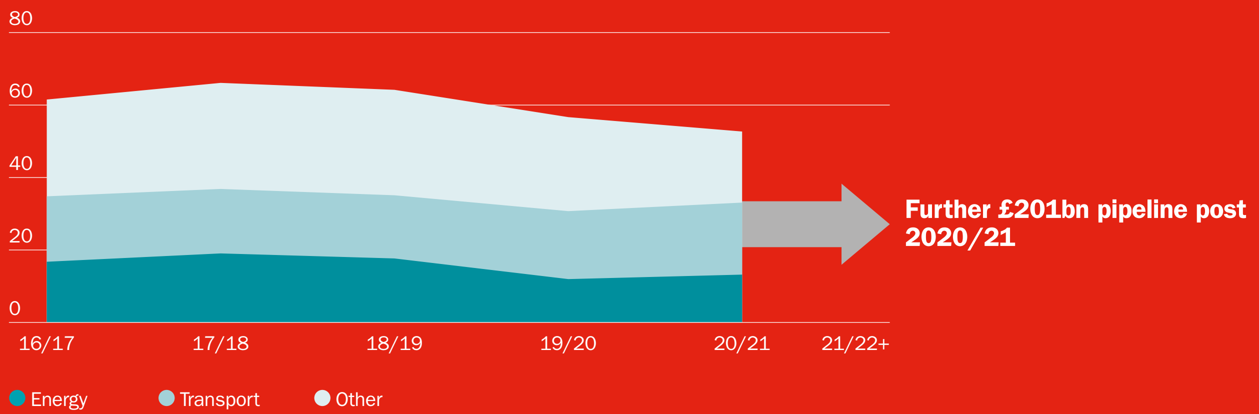
The UK National Infrastructure and Construction Pipeline has £502bn of projects across sectors where Kier is strong, including road, rail, power, gas, water and telecoms. £201bn of this is beyond 2020/21, providing longevity as well as scale to the pipeline.

Market positions in key sectors

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

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

UK National Infrastructure and Construction Pipeline (£bn)



Source: HM Treasury and Infrastucture and Projects Authority 2016

Turn to pages 46-51 for more information

Spaghetti Junction, Birmingham

Economic benefit

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

Enabling our delivery

Supply chain

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

Safety

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

Innovation

Using tried and tested technology from around the world to bring innovation to the UK market

Turn to pages 48-51 for more information

Delivering housing and providing essential maintenance services

The UK continues to experience a housing shortage. Kier has a range of house building and maintenance services which can address this need.

A structural shortage of housing

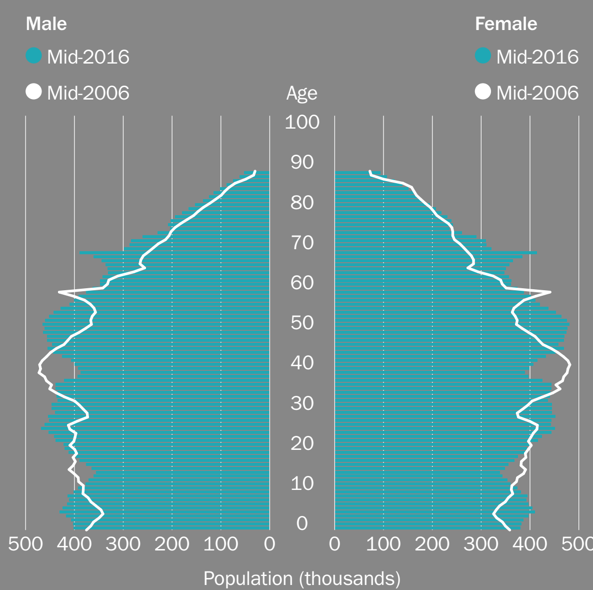
There is a persistent shortage of new housing in the UK, with supply consistently falling short of the annual requirement, estimated at a minimum of 210,000. This is likely to worsen as the UK population expands. Despite UK Government initiatives to help people buy houses, the demand for new affordable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

All aspects of affordable housing

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

Turn to pages 20-21 for more information

Population pyramid for UK – mid-2016



Source: ONS

Kier Living, Bourne, Lincolnshire

Social benefit

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

Enabling our delivery

Growth

Replicating a multi-tenure model throughout the UK

Technology

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

Delivery

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

Turn to pages 44-45 for more information

Chairman's statement

I am honoured and delighted to be the newly appointed Chairman of Kier.

Philip Cox
Chairman

Full-year dividend per share

67.5p

(2016: 64.5p)

Earnings per share[1]

106.8p

(2016[3]: 99.5p)

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

Results

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

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

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

Dividend

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

The macro environment

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

Governance highlights

The Governance section on pages 58 to 104 (inclusive) provides details of the Group's approach to governance and how it supports the delivery of Vision 2020. The highlights from the year included:

Nomination Committee

- Oversaw the Chairman's succession;
- Reviewed the Executive Directors' succession plan; and
- Monitored Constance Baroudel's induction to the Board.

Read more in the Nomination Committee report on pages 70 and 71.

Risk Management and Audit Committee

- Monitored the Group's systems of risk management and internal control;
- Reviewed the significant judgements made by management in preparing the 2017 financial statements; and
- Oversaw the operation of the Group's internal audit function.

Read more in the Risk Management and Audit Committee report on pages 73-78 (inclusive).

Safety, Health and Environment Committee

- Monitored the Group's current SHE performance;
- Reviewed progress against the Group's SHE strategy; and
- Oversaw the launch of the '30 by 30' initiative to reduce the Group's energy usage.

Read more in the Safety, Health and Environment Committee report on pages 79 and 80.

Remuneration Committee

- Consulted with shareholders with respect to a new remuneration policy;
- Set the Executive Directors' remuneration for 2018; and
- Approved the Executive Directors' 2016 bonus payments, assessed performance against the 2017 bonus targets and set the 2018 bonus targets.

Read more in the Remuneration Report on pages 82-101 (inclusive).

Corporate governance

Kier remains committed to the highest standards of corporate governance. The Board and its committees play a key role in guiding the company and setting the tone for how the business operates. I believe it is of paramount importance that we have the right skills set on the Board to steer the Group strategy for the long term. The Board is also supportive of the Group's ongoing focus on effective risk management, corporate responsibility and the value our operations bring to regional economic growth.

On 1 July 2016, Constance Baroudel joined the Board and became the Chair of the Remuneration Committee, replacing Amanda Mellor who left the Board after last year's annual general meeting. Constance brings significant financial experience and a detailed understanding of strategy in light of her present role at First Group.

Full details of our corporate governance can be found on pages 58 to 104.

Our people

The safety and, very importantly, the wellbeing of our people remain a priority and I am pleased to report that during this year we once again reduced our accident incidence rate (AIR) and rolled out campaigns to employees to raise awareness of good health and wellbeing.

On behalf of the Board, I would like to thank our employees who are so committed to making Kier the company it is. Since joining, I have already felt the pride and professionalism that our teams display in their delivery to our clients.

Outlook

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

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

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

Philip Cox CBE
Chairman

20 September 2017

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1 Continuing operations. Stated before non-underlying items. See note 4 to the consolidated financial statements.

2 Continuing operations. Group and share of joint ventures.

3 Prior year comparatives have been restated to reflect the reclassification of UK Mining as continuing operations and Mouchel Consulting and Biogen as discontinued operations.

4 Net debt is stated after the impact of hedging instruments.

Chief Executive's strategic review

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

Revenue[1, 2]
£4.27bn
(2016: £4.08bn)

Order book[3]
£9.5bn
(2016: £8.5bn)

Q&A

Chief Executive Haydn Mursell reflects on last year

Watch Haydn talk about the results and how we invest, build and maintain on www.kier.co.uk

1 Continuing operations. Group and share of joint ventures.
2 Continuing operations. Stated before non-underlying items. See note 4 to the consolidated financial statements.
3 Includes £0.6bn for McNicholas acquired post year end.

Q How would you summarise Kier's performance in 2017?

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

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

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

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

A We've been engaged in the process of portfolio simplification since 2015. It has involved closing operations in territories where new business prospects have significantly declined, and selling businesses that were not aligned with the strategic direction of the Group, and/or did not deliver our minimum ROCE hurdle of 15%. For example, during 2017 we closed down our operations in the Caribbean and in Hong Kong, and completed the sales of Mouchel Consulting and Biogen.

These activities were challenging and, in this respect, it was a busy year, as we undertook these changes while keeping our core businesses on track. Importantly, our core operations not only traded well but managed to gain market share and deepen client relationships. We also maintained the strength of the Group with a positive cash performance and a well-controlled pension deficit, creating a robust year end balance sheet. The financial impact of the portfolio simplification programme, together with certain other non-underlying items on the Group's 2017 results, was a non-underlying charge of £75m (see page 54 for more information). The programme also generated net cash of £67m, the significant majority of which was invested in the Property and Residential divisions.

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

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

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

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

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

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

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

The recent increase in fines for health and safety incidents, following the introduction of new sentencing guidelines in 2016, was a key consideration this year. In light of the new requirements, in 2017, we recorded a provision of £8m in this year's results to cover potentially increased fines for historic safety incidents. However, while we support the intention and principle of the regime, we are mindful that the fines levied to date by the Health and Safety Executive have been wide ranging in value. We will therefore continue to monitor the situation carefully.

Q What sets Kier apart from the competition?

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

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

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

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

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

We are continually exploring new and innovative ways of communicating safety messages and engaging employees about our safety culture.

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

Q How would you define the Kier company culture?

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

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

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

Our culture is hugely important to us, and is a key factor in attracting and retaining the people we need to drive the business forward. And, of course, our people are at the heart of this culture and make Kier what it is today. Dating back to the 1980s, our history is one of employee ownership, and over the years this has created an environment in which every individual takes a deep and genuine interest in the performance of the company.

Our strategy and business model are intrinsically linked to deliver stakeholder value

Building on our strategic priorities

Safe and sustainable

Operate a safe and sustainable business
Continual improvement in safety and sustainability is a prerequisite to success in our markets. We work with employees, customers and our supply chain to achieve this.

Growth

Accelerate growth to be a top 3 player in our chosen markets
Leading market positions mean we are better able both to capitalise on opportunities and manage risk from market changes.

Performance

Achieve top quartile performance and efficiency
Strong cash generation and efficient capital recycling provides stability and enables investment in the future.

Customers

Provide sector-leading customer experience
Our customer relationships give us the understanding we need to provide the best, most reliable service and to tailor our offer as customers' needs evolve.

People

Attract and retain highly motivated, high-performing teams
Attracting, developing and retaining the best people is critical to our success.

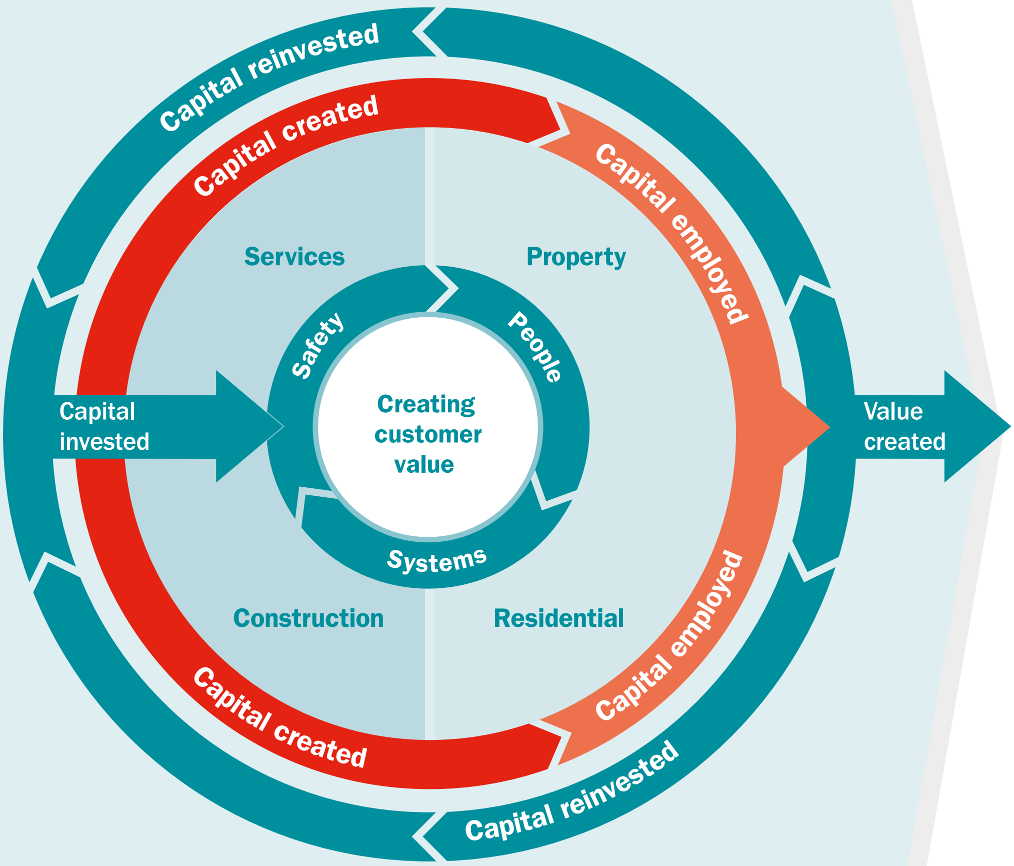
Innovation

Embracing innovation and technology across our business
Embracing innovation and technology enables us to improve customer service, our offering and efficiency.

Turn to pages 22-27 for more information on our strategic performance

We take a customer-centric approach to service delivery and development. By using our combined capabilities to invest in, build and maintain assets, we deliver for our clients and create value for all our stakeholders.

Delivering for our customers



Creating value for all our stakeholders

Investors
A sustainable dividend policy

Average annual dividend growth since 2014:

19%

People
Engaged people who are able to grow and develop

Engagement:

60%

Customers
Helping customers achieve their goals

Customer satisfaction:

91%

Community
Operating in a way that benefits the community

BITC score:

91%

Environment
Reducing our impact on the environment

Energy reduction target by 2030:

30%

Turn to pages 30-33 for more information on operating a safe and sustainable business

Q What were the major corporate responsibility highlights of 2017?

A I'm pleased to report that we made good progress in several non-financial areas. We made real progress in terms of diversity, or what we call 'creating a more balanced business'. This year, for the first time, Kier employees participated with industry colleagues in Pride London, marching under the banner of '#buildingequality'. We also continued to extend opportunities to people who may find it more challenging to enter employment. These efforts include initiatives for ex-offenders, school leavers from disadvantaged backgrounds, former service personnel and workplace returnees. We are also proud to support the Government-backed Apprentice Diversity Network initiative. During the year, we focused on activities which help our people, our teams and the communities in which we operate. Highlights included the Kier Awards, held for the first time at a national level, to recognise outstanding examples of employees living the Kier values.

We also held our second corporate responsibility (CR) forum for shareholders, during which we articulated our CR commitments and activities, including our environmental achievements, safety performance and social value initiatives. By communicating our efforts in this way, we have successfully engaged investors and demonstrated our commitment to value creation beyond the bottom line. The increase in our Business in the Community (BITC) score from 87% to 91% is a clear demonstration of the progress we have made.

Q How, in these uncertain times, do you ensure you have the right flow of people into the business?

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

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

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

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

We remain focused on delivering our Vision 2020 strategy – continuing to develop the business remains a priority.

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

Q What are your priorities for the new financial year?

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

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

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

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

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

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

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

Haydn Mursell
Chief Executive

20 September 2017

Markets with strong fundamentals

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

Aligned to fundamentals

Demographics driving key Kier sectors

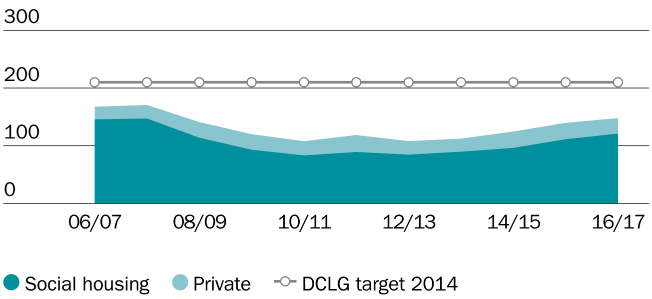
UK Government spending on schools, hospitals, rail and road capacity, and housing are all fundamentally based on changing demographics. As well as the overall UK population growing, in the 10 years to 2024 the number of people over 75 years old will increase by 35% and the number of school-age children,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

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

Continued demand for new affordable housing

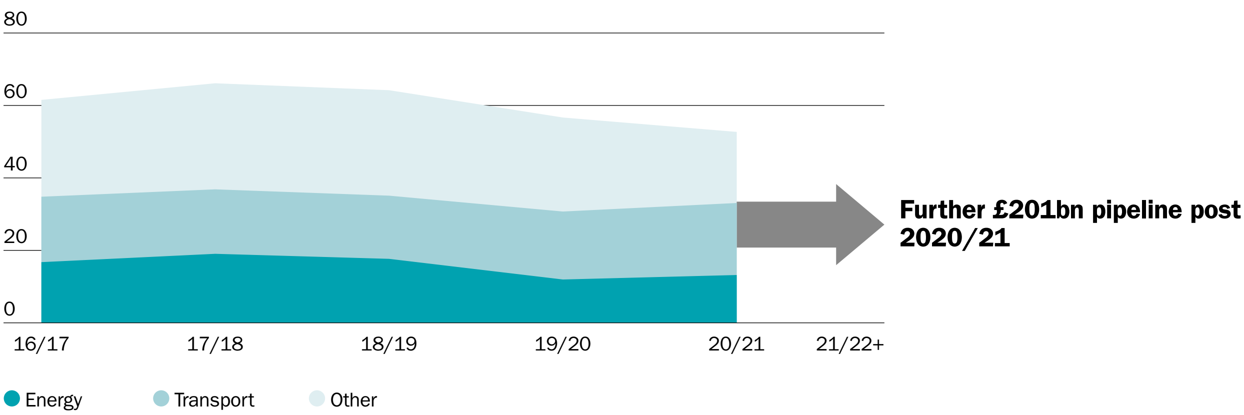
There is a structural shortage of housing in the UK that shows no sign of abating. The lowest annual estimate of new homes required is 210,000, but estimates vary up to 300,000. Demand continues to be strong, with the private development market maintaining sales rates at expected levels. Although certain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

New build housing ('000 units)



Source: Department for Communities and Local Government (DCLG)

UK National Infrastructure and Construction Pipeline (£bn)

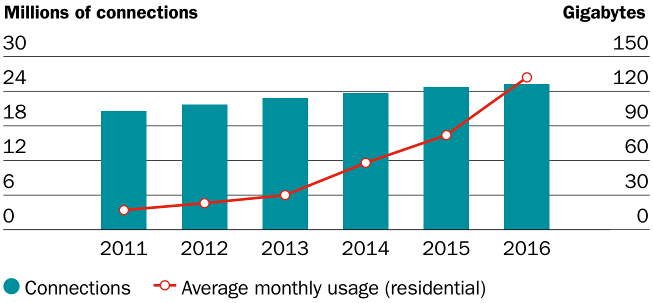


Source: HM Treasury and Infrastructure and Projects Authority 2016

Kier will benefit from increased use of technology

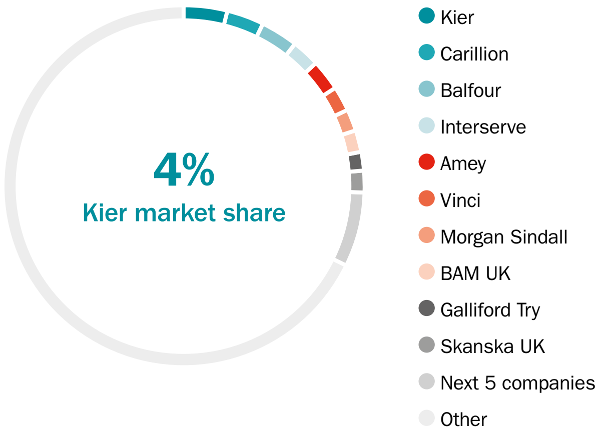
Technology is central to many sectors and to modern living, and is increasingly impacting built environment-related markets. We are actively pursuing and investing in market opportunities created by technological change. For example, the shift in the retail sector towards online shopping opens up opportunities to invest in and build distribution centres. Similarly, our acquisition of McNicholas places Kier at the heart of the need to extend the UK's broadband network to support the digital economy.

UK home and small business broadband



Source: Ofcom

UK construction services market share



Source: ONS, company reports, management estimates

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

Pressure on Government finances

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

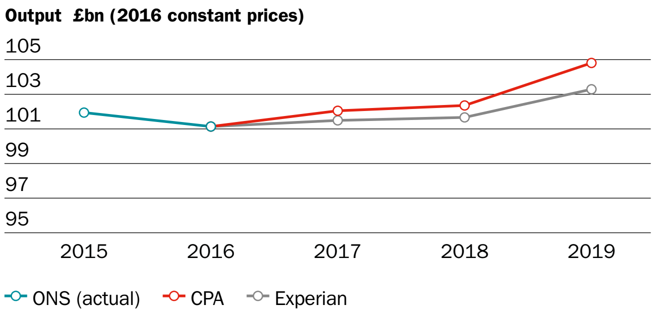
Brexit uncertainty will persist

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

Strong market positions

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

Construction market forecast



Progress and actions

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

Safe and sustainable

Turn to pages 30-33 for more information

Operate a safe and sustainable business

What we did in 2017

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

Future commitments

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

28%
Average annual improvement in AIR since 2014

91%
Improved BITC score

10%
2020 carbon footprint reduction target achieved early

19,741
Employee community hours

Our strategy in action

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

Growth

Turn to pages 42-51 for more information

Accelerate growth to be a top three player in our chosen markets

What we did in 2017

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

Future commitments

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

#1
in healthcare construction market

£1.5bn
HS2 joint venture contract awarded

£9.5bn
Order book (including McNicholas)

£2bn
Property and residential development pipeline

Our strategy in action

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

[1] Source: Construction Products Association Summer 2017, ONS.

Performance

Turn to pages 52-57 for more information

Achieve top-quartile performance and efficiency

What we did in 2017

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

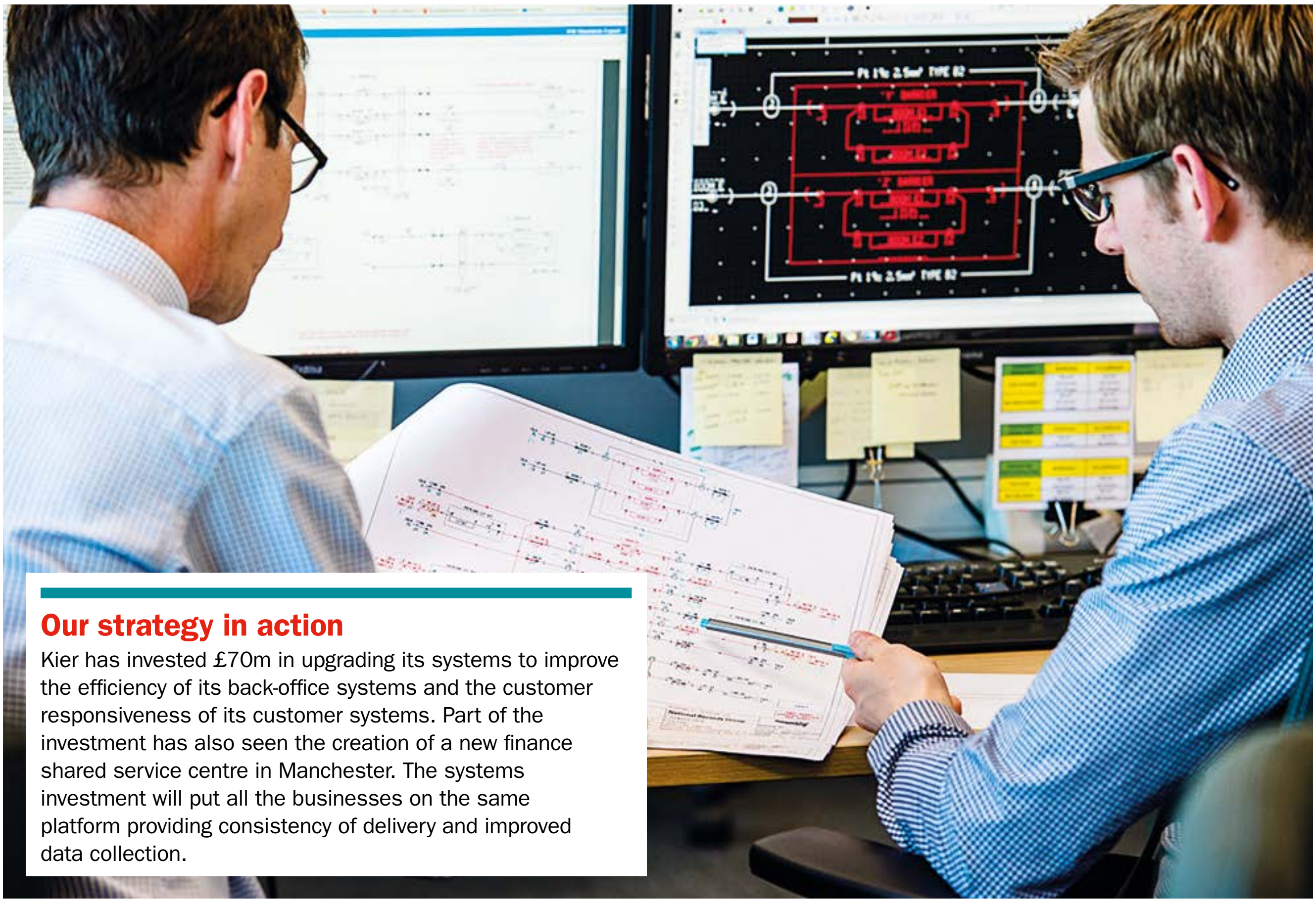
Future commitments

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

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

340,000
FSCC transactions

£70m
Investment in back-office systems



Our strategy in action

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

Customers

Turn to pages 14-19 for more information

Provide sector-leading customer experience

What we did in 2017

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

Future commitments

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

91%
Customer satisfaction

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

76
Key account managers

Our strategy in action

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

People

Turn to pages 30-33 for more information

Attract and retain motivated and high-performing teams

What we did in 2017

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

Future commitments

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

>5%
Employees in early career programmes

68:32
Graduate diversity (male:female)

18k
Number of employees

5 days
Target training days per employee p.a.

Our strategy in action

Kier is focused on attracting new talent into the construction and services sector. This year, the Balanced Business Network was launched to broaden the profile of our workforce. It consists of over 160 employees across the business who are driving a diverse and inclusive culture at all levels of Kier.

Innovation

Turn to page 19 for more information

Embracing innovation and technology across our business

What we did in 2017

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

Future commitments

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

£1m pa
Kier Accelerator Fund

£30m
Estimated R&D spend

1,000
Target contributors to innovation platforms

Our strategy in action

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

Key performance indicators

Measuring the successful delivery of our strategy.

Financial[1]

Key performance indicator | **Progress in 2017** | **Comment**

Revenue growth[2]

Strategic focus
Deliver annual revenue growth in line with Vision 2020

£4.3bn

2017	4.3
2016	4.1
2015	3.3

Our revenue growth in the year of 5% was organic and continues to be ahead of the market growth rate. We have averaged 13% annual revenue growth since Vision 2020 was launched in July 2014.

Underlying operating profit[3]

Strategic focus
Maintain consistent underlying operating margins

£145.6m

2017	145.6
2016	141.1
2015	105.6

Our average growth rate of 18% since 2014, when Vision 2020 was launched, is ahead of our stated target. Our underlying operating margin at 3.4% represents top quartile performance in our sector.

Underlying EPS[3]

Strategic focus
Achieve long-term growth in EPS

106.8p

2017	106.8
2016	99.5
2015	101.6

Underlying earnings per share continues to improve reflecting profit improvements in all businesses, especially Property and Residential, and reduced net finance costs.

ROCE

Strategic focus
Achieve ROCE above the Group's target of 15% based on average monthly capital employed

14.1%

2017	14.1
2016	13.8
2015	13.9

ROCE increased slightly despite increasing capital employed through greater investment in our Property and Residential businesses. Both these businesses have good ROCE performance, with Property achieving 23%.

Underlying economic profit[4]

Strategic focus
Achieve steady growth in economic profit

£63.1m

2017	63.1
2016	59.8
2015	39.5

We seek to generate returns that exceed our weighted average cost of capital, currently 8.0%, to ensure we add value to investment decisions. Underlying economic profit increased 6% in the year as a result of more efficient use of capital in generating profits.

Debt cover[5]

Strategic focus
Ensure debt is conservatively managed to improve cover towards a medium-term target of 1.0x underlying EBITDA

0.7x

2017	0.7
2016	0.7
2015	1.6

Having surpassed our target ratio of 1.0x underlying EBITDA ahead of schedule last year, we have maintained this discipline in 2017. We also continue to ensure that peak net debt is asset backed.

Shareholder returns (Dividend per share)

Strategic focus
Maintain a progressive dividend policy and deliver annual growth

67.5p

2017	67.5
2016	64.5
2015	55.2

The total dividend declared this year is £65.5m, which represents a CAGR of 19% since 2014, when Vision 2020 was launched.

Non-financial

Key performance indicator | **Progress in 2017** | **Comment**

Safety – Group accident incidence rate (AIR)

Strategic focus
Achieve year-on-year improvement in the Group AIR, and remain below the Health and Safety Executive benchmark for the UK

130

2017	130
2016	211
2015	319

We have achieved a 38% improvement in the reportable accident rate, with an average annual improvement since 2014 of 28%. Monthly safety visits by every director in the Group continue to be an important driver of safety. Against a target of 3,600 visits, we undertook 5,861 visits in the year, a 23% improvement on last year.

Customer experience

Strategic focus
Deliver a high level of customer satisfaction which is key to supporting sustainable long-term growth across our markets and client base

91%

2017	91
2016	90
2015	90

Our customer satisfaction performance, improved from an already high-base reflecting our focus in this area.

Employee engagement

Strategic focus
Achieve a continuous improvement in employee engagement survey score

60%

2017	n/a
2016	60
2015	n/a

Full employee surveys are carried out biennially and the next survey will be in 2018. In between we undertake 'pulse' surveys to test progress, with the most recent returning an increased participation of 73%, but a slight decline in engagement to 56%. The feedback, which we are addressing, particularly reflected the volume of activity and change within a number of businesses and the need to continue to develop people.

Employee retention

Strategic focus
Retain employees at or above industry average

88%

2017	88
2016	87
2015	85

Employee retention remains a key focus and we continue to prioritise engagement, development and inclusion.

Sustainability

Strategic focus
Maintain a high ranking in Business in the Community's Corporate Responsibility Index

91%

2017	91
2016	87
2015	87

We have improved our score against our benchmark sustainability metric. This reflects Kier working with a range of stakeholders to create value in line with our sustainability strategy.

Strategic priorities:

- Operate a safe and sustainable business
- Accelerate growth to be a top three player in our chosen markets
- Achieve top quartile performance and efficiency
- Provide sector-leading customer experience
- Attract and retain highly motivated, high-performing teams
- Embracing innovation and technology across our business

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

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

2 Group and share of joint ventures.

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

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

5 Including finance leases. Net debt is stated after the impact of hedging instruments.

Related information:

Turn to pages 22 to 27 for more information

Operating a safe and sustainable business

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

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

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

Sustainability is key to our strategy

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

RBPO has four themes that directly support Vision 2020, each with five performance areas (see table opposite). In this Annual Report we provide commentary principally on three areas recognised as most material by our stakeholders (business ethics, safety, health and wellbeing, and customer experience), and those we are required to disclose by the reporting environment we operate in. Areas not covered in this report are fully disclosed on the Kier website and in our Corporate Responsibility Report available at www.kier.co.uk.

Understanding what is material to our stakeholders

Engagement

2014

Stakeholder engagement

We started to create our strategy for a sustainable business, RBPO, back in 2014. This was aligned to the Global Reporting Initiative (GRI) guidelines on materiality assessment.

Our initial review included customers, non-governmental organisations (NGOs) and employees and resulted in the creation of a draft strategy that supported Vision 2020. It is aligned with our corporate values, and creates value for our shareholders and wider society.

Vision 2020 published

Materiality assessment

2015

Stakeholders and shareholders

Consultation with customers, NGOs and employees was carried out in March 2015 and then with major institutional shareholders in September. Their feedback helped us to refine the strategy and recognise the most material issues.

Broad consensus on the 20 performance areas of RBPO was achieved, with recognition that business ethics, safety, health and wellbeing, and customer experience were the three most important factors.

Responsible Business, Positive Outcomes published

Implementation

2016 2017 2018

Continuing engagement

During 2016 we introduced the RBPO strategy to our employees through a series of face-to-face briefings across our operations. We then began implementation. In 2017 we tested the strategy again with institutional shareholders.

We plan to revisit clients and shareholders during the coming financial year and engage the views of external experts such as Business in the Community.

Ongoing review of 20 performance areas

Our 20 performance areas

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

Key

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

For more information please see our Corporate Responsibility Report 2017 at www.kier.co.uk

Business ethics

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

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

Good governance – how we manage our business

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

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

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

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

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

Safety, health and wellbeing

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

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

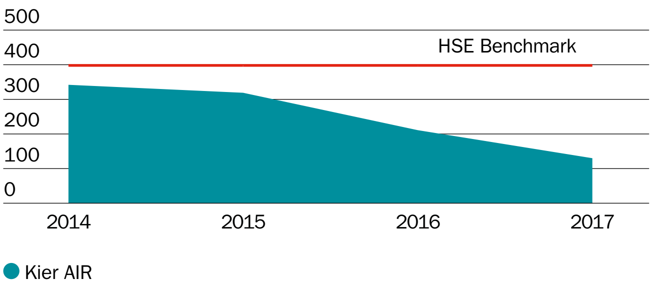
- We have introduced new safety, health and environment management processes which focuses on the basics.
- A Visible Leadership programme which is designed to encourage directors and senior managers to make regular visits to operational projects and sites. They are an important driver of safety. Against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

Safety – the five basics

Five basic points that help reduce accidents and boost safety:

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

Accident incidence rate (AIR)



Customer experience

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

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

At Kier we operate a number of work access programmes directly including:

- Nordis: a social enterprise that makes road signs. Based in Northamptonshire, it provides meaningful employment for people with disabilities.
- Making Ground: a work placement programme for ex-offenders. Through this scheme numerous ex-offenders have been offered placements that have subsequently resulted in full-time employment.

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

S-Skills on Surrey Highways

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

- Reducing dependency culture within communities.
- Balancing regional skills supply and demand.
- Meeting Surrey County Council's pledge on apprentices.
- Addressing highway management skills and ageing workforce issues.
- Creating a skilled, work-ready generation to build tomorrow's infrastructure.
- Each year, the S-Skills Social Enterprise will generate a social value of £420,000 through enhanced skills, economic returns and positive outcomes on health and wellbeing for wider society.

Recognising our responsibilities

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

Greenhouse gas emissions

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

Emission type:	2015 CO_2e tonnes	2016 CO_2e tonnes
Scope 1: operation of facilities	0	**0**
Scope 1: combustion	112,651	**108,831**
Total Scope 1 emissions	112,651	**108,831**
Scope 2: purchased energy	17,189	**14,467**
Scope 2 total emissions	17,189	**14,467**
Total emissions	129,839	**123,298**
Greenhouse gas emissions intensity ratio	36.6 t/£m	**31.4 t/£m**
Revenue (£m) – calendar year	3,552	**3,928**

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

Human rights

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

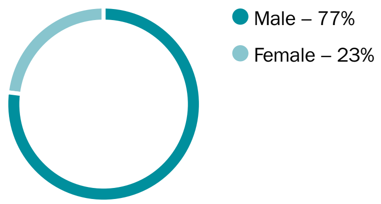
Diversity

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

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

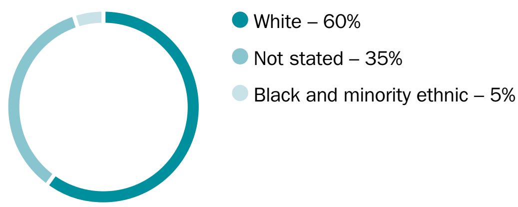
- Establishing the Balanced Business Network to champion and promote diversity and inclusion in Kier, with Claudio Veritiero becoming the Board champion.
- LGBTQ+ network launched.
- Demonstrated our commitment to creating a more diverse and inclusive workforce by joining peers from the construction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

Diversity[1]



	Male	Female
All employees	12,425 77%	**3,808** **23%**
Senior management	272 90%	**29** **10%**
Directors	9 82%	**2** **18%**

Ethnicity of employees



1 Data is based on a spot audit at year end, and excludes locally employed overseas and McNicholas data.

Managing risk to protect and grow our business

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

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

Risk oversight

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

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

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

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

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

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

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

Risk identification

During 2017, we have identified, analysed and monitored the principal risks which management believes would significantly threaten our business model, future performance, reputation, solvency and liquidity. Effective risk identification is fundamental to our risk management process and is performed through a top-down and bottom-up process to form a balanced and holistic view of risks as they arise or evolve.

Top down

Board

The Board and RMAC have agreed a division of responsibilities with respect to the management of risk. The Board conducts a robust assessment of the principal risks facing the Group, and its risk appetite, and the RMAC oversees the Group's systems of risk management and internal controls.

Executive Committee (ExCo)

Risk identification and management is central to the decisions taken by the ExCo.

Group risk function

Reviews heatmaps and registers on a quarterly basis.

Bottom up

Business unit/divisions

Risk identification is built into routine processes and supported by an annual risk review which is refreshed regularly within each business unit. Emerging risks are reviewed and added as part of a continuous improvement process. These are also reviewed by divisional risk champions.

Group risk function

Challenges assumptions and prioritisation, supports business units in aggregating their risks and reviews risk registers and heatmaps on a quarterly basis.

Risk recording and review

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

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

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

The Internal Audit function provides independent assurance to the RMAC.

Risk appetite

Balancing risk appetite with our strategic aims

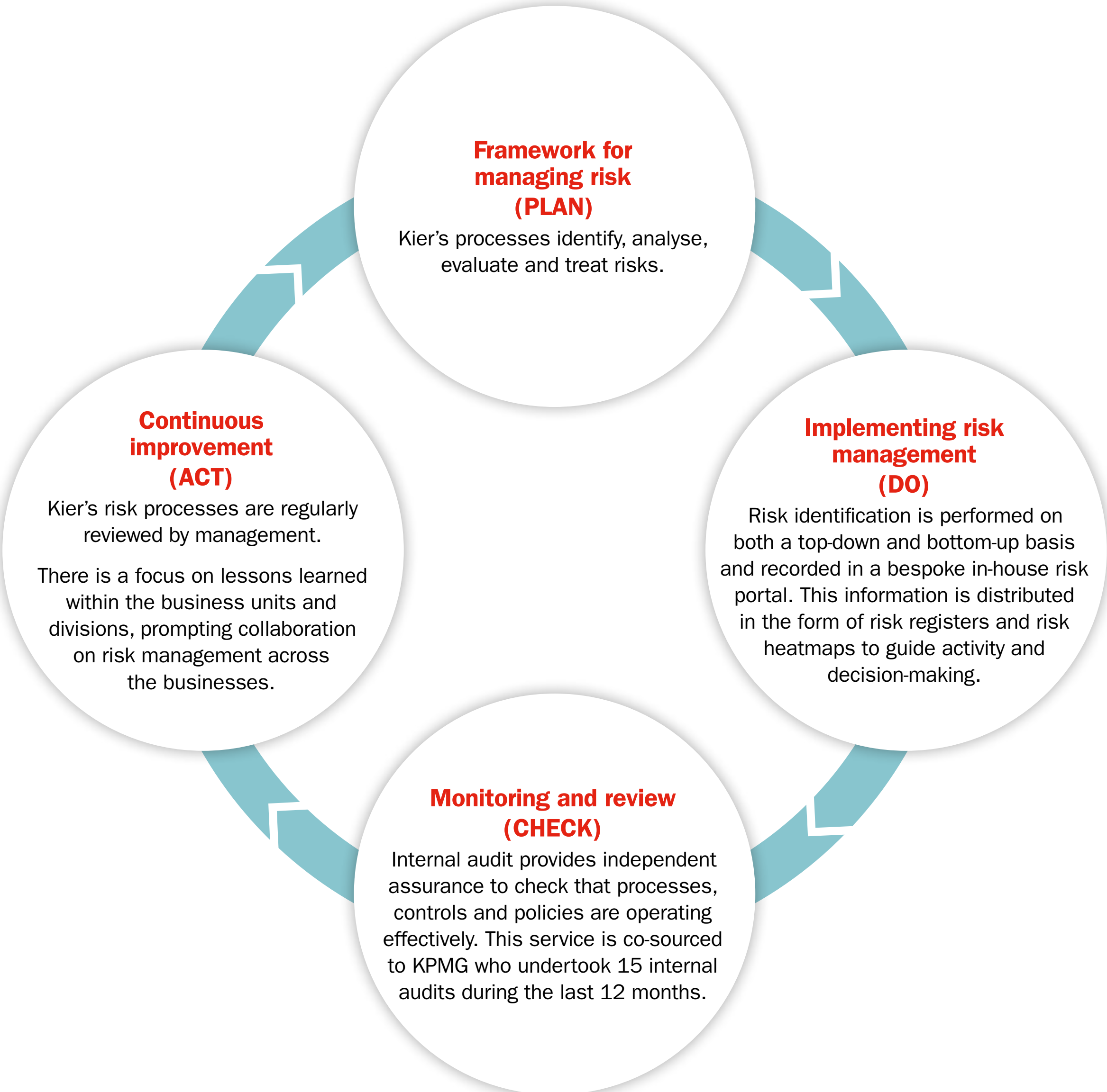
The Board assesses its risk appetite annually. In 2017, the Board undertook a detailed review of its appetite for risk set against each of Kier's strategic priorities. Risk appetite was mapped against a sliding scale from 'risk-averse' to 'risk-neutral' to 'risk-tolerant' and this informed the development of thresholds to quantify acceptable upper and lower levels of risk for each strategic priority.

Risk framework

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

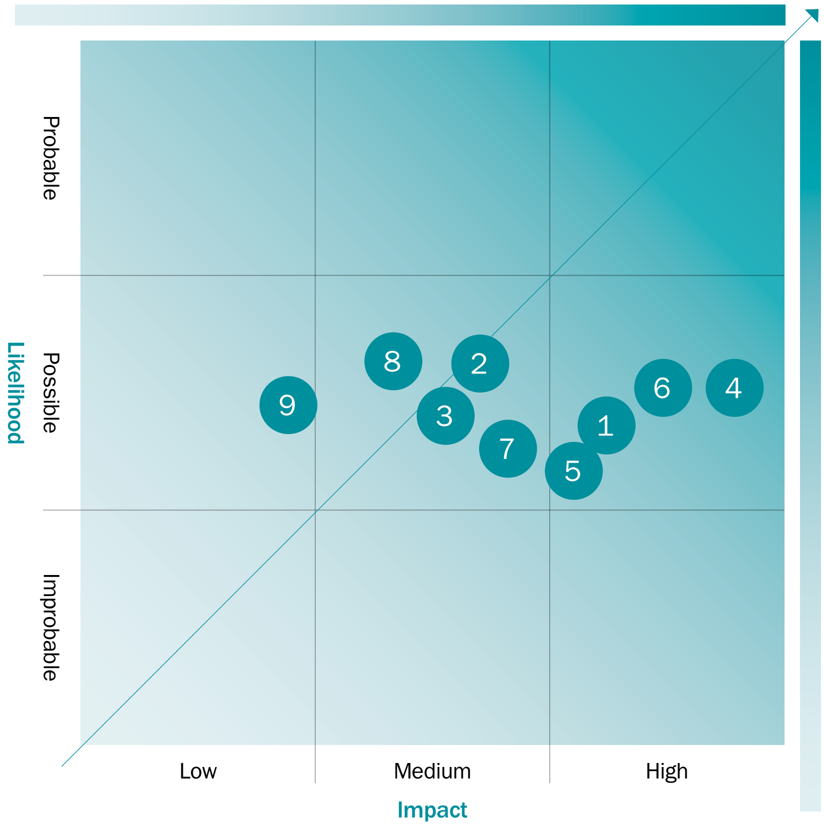
Mandate and commitment

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



Analysing our principal risks

1. Health and safety
2. Sustainability requirements
3. Availability of funding
4. Market and sector performance
5. Operating model inefficiency
6. Ineffective contract management
7. Loss of key customer relationships
8. Availability and retention of the right people
9. Insufficient innovation



The definitions of probability and impact are as follows:

Likelihood

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

Impact

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

Key areas of risk focus for 2018

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

The principal areas of focus for 2018 are:

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

Principal risks and uncertainties

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

Recognising the impact of our principal risks

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

Our strategic priorities

- Operate a safe and sustainable business
- Accelerate growth to be a top three player in our chosen markets
- Achieve top quartile performance and efficiency
- Provide sector-leading customer experience
- Attract and retain highly motivated, high-performing teams
- Embracing innovation and technology across our business

Key to risk movement

- Risk increased
- Risk decreased
- NEW New PRU
- No risk movement

1. Health and safety

Major health and safety incident

Link to strategy

Risk movement

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

2. Sustainability
Breadth of sustainability requirements

Link to strategy | Risk movement NEW

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

3. Funding
Availability of funding

Link to strategy | Risk movement ↔

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

4. Market and sector performance

Market downturn impacts customer expenditure

Link to strategy | Risk movement NEW

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

5. Operating model

Operating model inefficiency

Link to strategy | Risk movement NEW

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

6. Contract management
Ineffective contract management

Link to strategy   Risk movement

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

7. Customers
Loss of a key customer relationship

Link to strategy   Risk movement NEW

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

8. People

Availability and retention of the right people

Link to strategy Risk movement ↔

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

9. Innovation

Insufficient innovation to maintain market position

Link to strategy Risk movement NEW

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

Additional macro-economic risks

Brexit

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

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

Property

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

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

Revenue[1]
£182m
(2016: £169m)

Operating profit[2]
£25.8m
(2016[4]: £21.4m)

Average capital[4]
£113m
(2016[4]: £94m)

ROCE
23%
(2016[3]: 23%)

Statutory operating profit
£18.1m
(2016[3]: £16.0m)

Financial information in this table relates to continuing operations

1 Group and share of joint ventures.

2 Stated before non-underlying items. See notes 2 and 4 to the consolidated financial statements.

3 Restated to exclude the results of Biogen following its disposal in the year.

4 Equates to average net debt.

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

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

Immediately after the Brexit vote, £60m was invested in new developments, taking advantage of market opportunities during the first quarter. This investment underpinned an average capital[4] employed in the 2017 financial year of £113m. Twenty development schemes were sold during the year. The division also continues to offer its specialist skills as part of a wider Group offer to many of our clients who are seeking to maximise the return from their property assets through estate rationalisation.

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

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

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

Watford Riverwell is a joint venture development by Kier with Watford Borough Council.

In the retail and mixed-use sector, which remains buoyant, phase 2 of the leisure scheme in Walsall was fully let before construction commenced in January 2017 and a 45,000 sq ft pre-let retail scheme in Wakefield was forward sold with construction commencing in May 2016 and completing in August 2017. Further opportunities have been secured in Hemel Hempstead, Thornton-Cleveleys and Durham for retail schemes.

The £400m Watford Health Campus project continued to make good progress with the completion of infrastructure works in October 2016 and the completion of the first commercial scheme, a 72,000 sq ft Trade City with strong occupier demand. Planning was secured 95 units of the first residential scheme with construction due to commence later in 2017.

Construction commenced in Southampton on the 413-bed student accommodation scheme, with construction due to complete in August 2018. In September 2016, financial close was reached to design, build, finance and maintain the £25m Ayr Academy in South Ayrshire and the £41m William McIlvanney Campus in Kilmarnock.

The Group's investment portfolio holds seven schemes; two at preferred bidder stage, two in construction and three in operation. The committed equity investment stands at £26.8m (2016: £29.5m) of which £22.4m (2016: £14.7m) has been invested to date. The directors' valuation of the investment portfolio is £32m (2016: £41m).

In April, we sold our joint venture interest in Biogen, the renewable energy business. This resulted in a loss on sale of £7.6m and a cash inflow of £10m.

Making a difference

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

88 days
of skills training provided on the Riverwell project

Property outlook

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

With an expansion into student accommodation, the 264-room student development in Glasgow was fully let for the 2017/18 academic year.

Residential

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

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

Revenue[1]
£376m
(2016: £353m)

Operating profit[2]
£22.8m
(2016: £20.3m)

Average capital[3]
£199m
(2016: £231m)

ROCE
11%
(2016: 9%)

Statutory operating profit
£20.6m
(2016: £19.5m)

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

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

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

Mixed tenure

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

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

Balaam Wood, Birmingham provides 400 new homes of which 128 are affordable homes for Birmingham City Council

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

Private

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

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

Residential outlook

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

We will continue to grow our mixed tenure business and work towards our Vision 2020 goal of 15% ROCE.

Making a difference

40 mile radius
Within which Kier Living projects aim to source the supply chain

70 apprentices
Provided with Kier Living work experience during 2017

The Connect21 development in Peterborough is typical of the quality of product Kier Living brings to the market

Construction

The Construction division comprises UK building, UK infrastructure and international businesses which undertake a range of building and infrastructure projects.

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

Revenue[1]
£2,019m
(2016: £1,901m)

Operating profit[2]
£39.8m
(2016[3]: £38.9m)

Operating margin[2]
2.0%
(2016[3]: 2.0%)

Statutory operating loss
£(10.1)m
(2016[3]: £(3.2)m)

Order book
£4.2bn
(2016[3]: £3.2bn)

Financial information in this table relates to continuing operations.

1 Group and share of joint ventures.

2 Stated before non-underlying items. See notes 2 and 4 to the consolidated financial statements.

3 Restated to present the results of Mouchel Consulting as discontinued following its sale in the year, and to restate the results of UK Mining into continuing operations.

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

UK building

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

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

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

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

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

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

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

The David Ross Sports complex, one of the UK's leading sports facilities, required the comprehensive redevelopment and demolition of the existing sports centre to create a modern, customer built facility for the University of Nottingham enabling the University to cater for 70 sports clubs.

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

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

Infrastructure

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

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

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

Making a difference

4,460
direct and indirect jobs created through the Mersey Gateway project

Won
Management Today's Construction category For Britain's Most Admired Company awards twice in the last three years

International

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

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

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

Construction outlook

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

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

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

Services

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

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

Revenue[1]
£1,688m
(2016: £1,656m)

Operating profit[2]
£87.0m
(2016: £86.1m)

Operating margin[2]
5.2%
(2016: 5.2%)

Statutory operating profit
£54.5m
(2016: £5.6m)

Order book
£4.7bn
(2016: £5.3bn)

1 Group and share of joint ventures.

2 Stated before non-underlying items. See notes 2 and 4 to the consolidated financial statements.

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

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

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

Infrastructure services – Highways maintenance

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

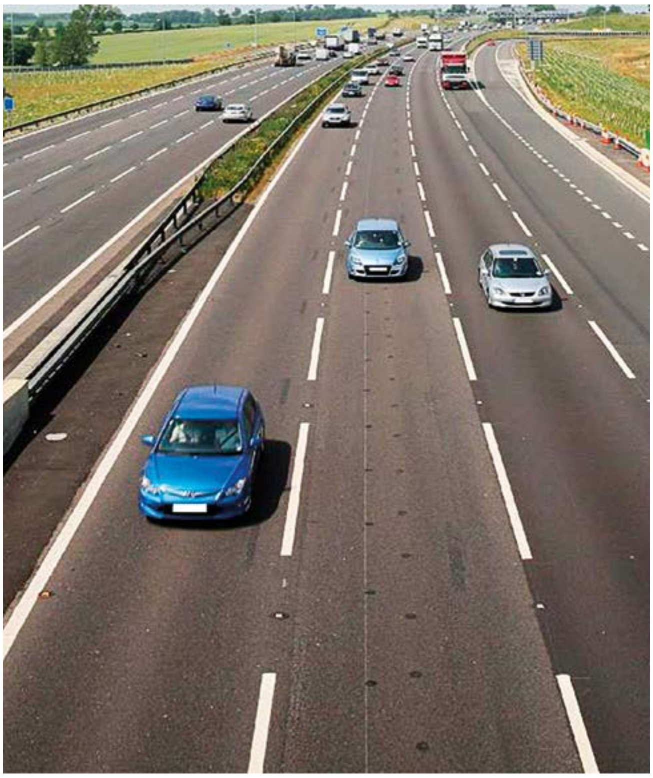
- a 15-year, £140m repair and maintenance contract for Area 13 covering Cumbria;
- a two-year, £50m maintenance services contract for Areas 6 and 8 covering East Anglia and the East of England; and
- a five-year, £40m design service contract for Areas 1 and 2.

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

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

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

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



Kier continues to build on its position as a key supplier to Highways England.

Infrastructure services – Utilities

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

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

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

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

On 12 July 2017 we acquired McNicholas, a leading player in the multi-utilities market, making Kier a top three player in the utilities sector. McNicholas is an established UK engineering services provider in the telecommunications, gas, power, water, renewable energy and rail sectors and has a client base which includes Virgin Media, Network Rail and UK Power Networks. The acquisition builds on Kier's strategy to accelerate growth and hold leading positions in its chosen markets.

Making a difference

Over 40

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

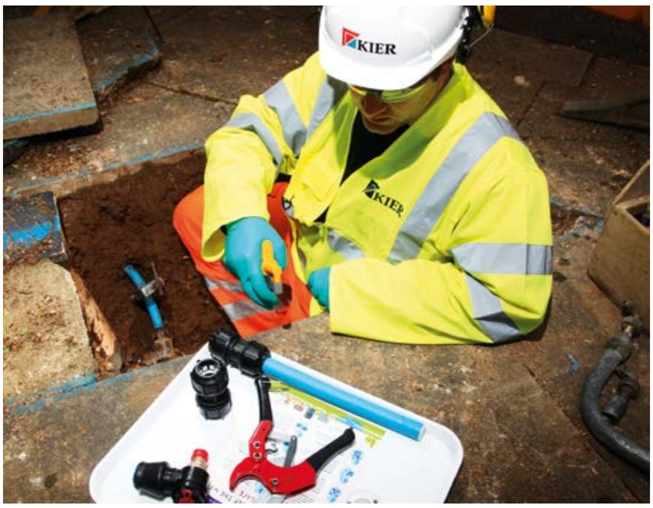
800,000

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

Infrastructure services outlook

We expect that Highways England maintenance activity levels will continue as part of the strategic highways funding commitment to 2020 through the current RIS. We continue to work with Highways England as they look at their future operating model and look forward to participating in the Routes to Market and £8bn framework procurement initiatives which will provide significant future opportunity for the Group.

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



With UK population growth expected to increase, the demand for services is increasing across a broad range of markets including water, energy and telecoms. Kier has a leading position in the utilities sector.

The facilities management team have extended their presence into new sectors and clients with a strong presence in the arts and heritage sectors.

Property services – Housing maintenance

The sector continues to undergo significant change, with social landlords challenged by budget reductions and the recently introduced Universal Credit arrangements providing impetus to review how housing associations manage their portfolios. With the anticipated merger of housing associations, Kier is one of a select few service providers with the capacity to deliver large contracts and the end-to-end solution clients are seeking.

During the year and since year end, a number of contracts have been awarded including the five-year £100m Powys joint award with the Workplace Services business, and a range of planned maintenance contracts with Sheffield City Council.

Property services – Workplace Services

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

New awards in the period totalling c£40m included:

- a two-year contract with the Royal Berkshire Fire and Rescue Service providing hard FM;
- estates transformation design work with MOPAC;
- a three-year hard FM contract with NHS Business Services Authority; and
- a one-year total FM contract with Sensor City Liverpool, part of the John Moores University complex.

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

Kier has also successfully secured places on a number of frameworks including the two-year £2.8bn Crown Commercial Services Project Management and Full Design Team Services frameworks, available to the whole of the public sector, for the provision of multi-disciplinary professional consultancy services.

Property Services outlook

With cost being a major driver for clients, our Property Services teams are working closely with them to transform their data collection and interpretation of that data to deliver appropriate solutions. Investment in our front-of-house systems has enabled our teams to interact seamlessly with our clients' systems and we continue to look at smarter ways of working together. The introduction of universal credit will give the Housing Maintenance business greater opportunities as landlords seek new ways of managing their portfolios.

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

Environmental Services

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

Services outlook

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

The housing maintenance sector is undergoing significant change. Kier is one of few in the market with the capacity to deliver large contracts and end-to-end solutions.

[1] Including £0.6bn from McNicholas acquired post year end.

Financial review

The Group has undergone a number of material changes to its overall shape and scale as part of the portfolio simplification actions undertaken during the year.

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

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

Accounting policies and segmental reporting

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

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

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

Underlying financial performance

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

Underlying earnings per share[2] has increased 7% on an organic basis, after adjusting for the disposal of the Mouchel Consulting business in the second quarter of the financial year. Group revenues, including the share of joint ventures, have increased by 5% with all divisions reporting organic growth.

Within the Property division, revenue[1] of £182m (2016: £169m) represents 8% growth on the prior year. The division continues to move to more capital efficient funding structures where funding and equity from third-party investors can be used to enhance returns and balance the risk within the portfolio. As a consequence, increased joint venture revenue of £117m (2016: £71m) represented 64% of the division's turnover. The average investment in joint ventures increased by 14% to £123m (2016: £108m) and the Group's concentration in property investment outside London continued, with over 80% of turnover coming from outside the M25.

The Residential division saw total revenues[1] increase by 6% to £376m (2016: £353m). For the first time this included a significant contribution from joint ventures of £28m (2016: nil), driven predominantly by the Group's investment in the joint venture with Cross Keys Homes in March 2017. This investment allows sharing of expertise and risk between the partners as well as the introduction of third-party financing which enhances the return on capital. Total units completed increased by 3% to 2,200 of which two-thirds were generated from mixed tenure businesses where the division operates in partnership with local authorities, registered providers and other clients.

Financial performance

Continuing operations		2017 Year ended 30 June	2016[3] Year ended 30 June	Change %
Revenue[1]		**£4.3bn**	£4.1bn	+5
Group revenue		**£4.1bn**	£4.0bn	+3
Operating profit	– Underlying[2]	**£145.6m**	£141.1m	+3
	– Reported	**£48.2m**	£(7.4)m	
Profit/(loss) before tax	– Underlying[2]	**£126.1m**	£116.4m	+8
	– Reported	**£25.8m**	£(34.9)m	
Earnings/(losses) per share	– Underlying[2]	**106.8p**	99.5p	+7
	– Reported (Basic)	**15.3p**	(25.7)p	
Dividend per share		**67.5p**	64.5p	+5

1 Group and share of joint ventures.

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

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

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

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

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

Divisional performance

Property
ROCE 23%
(2016: 23%)

Residential
ROCE 11%
(2016: 9%)

Construction
Margin 2.0%
(2016: 2.0%)

Services
Margin 5.2%
(2016: 5.2%)

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

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

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

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

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

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

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

Net underlying finance costs[2] of £19.5m (2016: £24.7m) are 21% lower than the prior year reflecting the use of more efficient corporate funding streams including the Group's Schuldschein facility entered into at the end of the 2016 financial year. In addition, the reduction in interest charge associated with the Group's pension scheme to £2.0m (2016: £5.6m) reflects the continuing contraction in bond yields. Finally, and as noted in the operating profit position, the interest payable has benefited from the capital funding models employed, particularly in Property with £6.5m (2016: £2.2m) charged within operating profit rather than interest in continuing operations.

Underlying net finance costs[2]

	2017 £m	2016 £m
Interest payable and fees on borrowings	**(16.9)**	(17.7)
Interest payable on finance leases	**(0.6)**	(1.4)
Net interest on net defined benefit obligations	**(2.0)**	(5.6)
	(19.5)	(24.7)

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

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

Non-underlying items

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

Caribbean: the closure of the Caribbean business following the agreement of the final account with a client on a challenging project;

Hong Kong: the closure of the Hong Kong business and the agreement of the process to settle the final accounts;

Mouchel Consulting: the sale of Mouchel Consulting in October 2016;

Biogen: the sale of Kier's joint venture interest in Biogen, the renewable energy business, in April 2017;

Housing joint venture: the establishment of the Cross Keys Homes joint venture in March 2017, which released cash for reinvestment in new opportunities across the Group and enables our private house building business to deliver a significantly improved return on capital;

HSE sentencing guidelines: a provision relating to a potential increase in fines for historic health and safety incidents following the introduction of new sentencing guidelines;

Environmental contract curtailment: the effects of reduced recyclate income and the curtailment of the East Sussex environmental contract four years earlier than its stated termination date.

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

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

	2017 charge £m	**2017 cash inflow/ (outflow) £m**
Closure of businesses		
Caribbean	(60)	(43)
Hong Kong	(26)	(11)
Sale of non-core operations		
Mouchel Consulting	40	59
Biogen	(8)	10
Other		
Cross Keys JV	(2)	64
HSE	(8)	(2)
Environmental	(11)	(7)
Other	–	(3)
Total cash non-underlying items	**(75)**	**67**
Total non-cash non-underlying items	(25)	–
Total non-underlying items	**(100)**	**67**

Cash performance

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

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

Secondly, that peak net debt will be less than the Group's combined investment in property and residential assets.

The first of these disciplines recognises that an efficient capital structure for a Group with investment businesses will include an element of debt. The second recognises that the Construction and Services divisions in particular are seasonal in nature but they should remain materially cash positive as standalone divisions and must maintain strict working capital management.

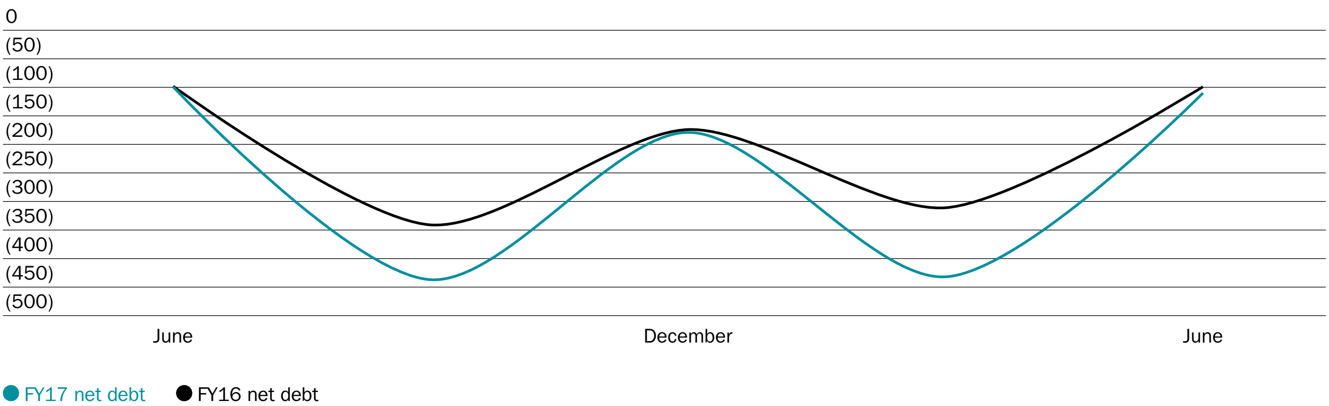
At year end, the net debt to EBITDA ratio was 0.7 (2016: 0.7) and the level of peak net debt in February 2017 was 85% of the value of property and residential assets. Both positions remain well within our two key disciplines.

Cash performance KPI

Net debt : EBITDA	Peak debt : Assets
0.7x	**0.9x**
(2016: 0.7x)	(2016: 0.8x)

Average debt[1] for the year of £320m was £40m higher than the prior year following planned investment in the first half of the year, particularly in Property. With the investment in property and residential assets being concentrated in the first and third quarters of the year, and receipts from non-underlying disposals in the second and fourth quarters, this investment had a disproportionate impact on the Group's net debt position during the year.

Group net debt (£m)



The overall net debt[1] position of the Group increased from £99m at June 2016 to £110m at June 2017. This £11m net outflow was materially lower than anticipated, reflecting strong operational cash conversion within the Construction and Services divisions and capital efficiency in Property and Residential, notably the conclusion of the Cross Keys Homes joint venture, offsetting the increased investment in property assets.

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

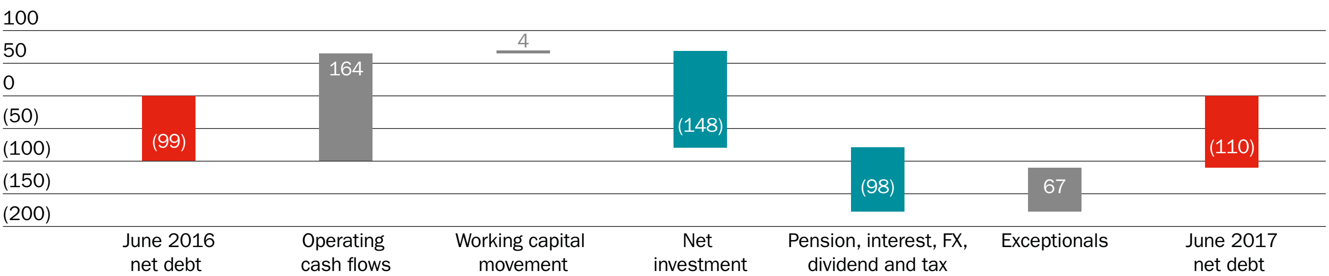
During the year our working capital disciplines were maintained, with a small inflow of £4m being recorded. The billing cycle and revenue conversion remain major areas of focus with debtor and WIP days moving to 16 days (2016: 16 days) and 44 days (2016: 50 days) respectively. The Group's investment in property and residential assets held within joint ventures and inventories resulted in a cash outflow in the year of £76m, with this discretionary investment supporting growth in the medium term. In addition to this, the Group invested a total of £44m in operational IT systems including the ERP platform and front-end management systems for the utilities, housing maintenance and facilities management businesses. The Group also invested £16m (2016: £14m) in property, plant and equipment and had a net cash outflow on finance leases of £12m (2016: £14m).

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

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

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

Cash performance (£m)



[1] Net debt is stated after the impact of hedging instruments.

[2] Stated before non-underlying items. See note 4 to the consolidated financial statements.

Acquisition of McNicholas

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

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

Order books

At 30 June	2017 £bn	2016 £bn
Construction	**4.2**	3.2
Services	**4.7**	5.3
Total	**8.9**	8.5

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

Pensions

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

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

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

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

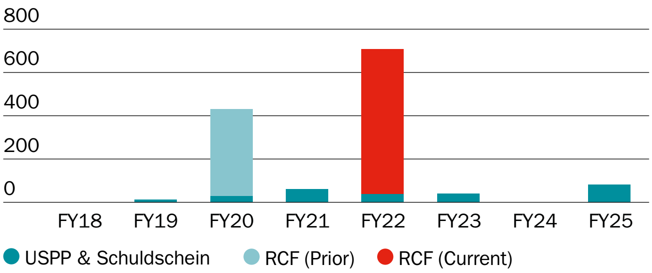
The overall liabilities of the pension schemes have increased by £73m in the year to £1,721m (2016: £1,648m), driven by the continuing compression of bond yields and an increase in future RPI and CPI inflation.

Treasury facilities and policies

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

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

Maturity of committed facilities (£m)



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

Financial instruments

The Group's financial instruments comprise cash and liquid investments. The Group, largely through its PFI and property joint ventures, enters into derivative transactions (principally interest rate swaps) to manage interest rate risks arising from its operations and its sources of finance. The US dollar denominated USPP loan notes have been hedged with fixed cross-currency swaps at inception to mitigate the foreign exchange risk. The Group does not enter into speculative transactions.

There are minor foreign currency risks arising from our operations. The Group has a limited number of international operations in different currencies. Currency exposure to international assets is hedged through inter-company balances and borrowings, so that assets denominated in foreign currencies are matched, as far as possible, by liabilities. Where there may be further exposure to currency fluctuations, forward exchange contracts are completed to buy and sell foreign currency.

Dividend policy

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

Going concern

The Chief Executive's strategic review highlights the activities of the Group and those factors likely to affect its future development, performance and financial position. These have been carefully considered by the Board in relation to the Group's ability to operate within its current and foreseeable resources.

The Group has significant financial resources, committed banking facilities, long-term contracts and long order books. For these reasons, the directors continue to adopt the going concern basis in preparing the Group's 2017 financial statements. The full going concern statement is set out on page 62. A summary of the work undertaken by management and the Risk Management and Audit Committee (RMAC) to support this statement is set out on page 75.

Viability statement

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

Bev Dew
Finance Director

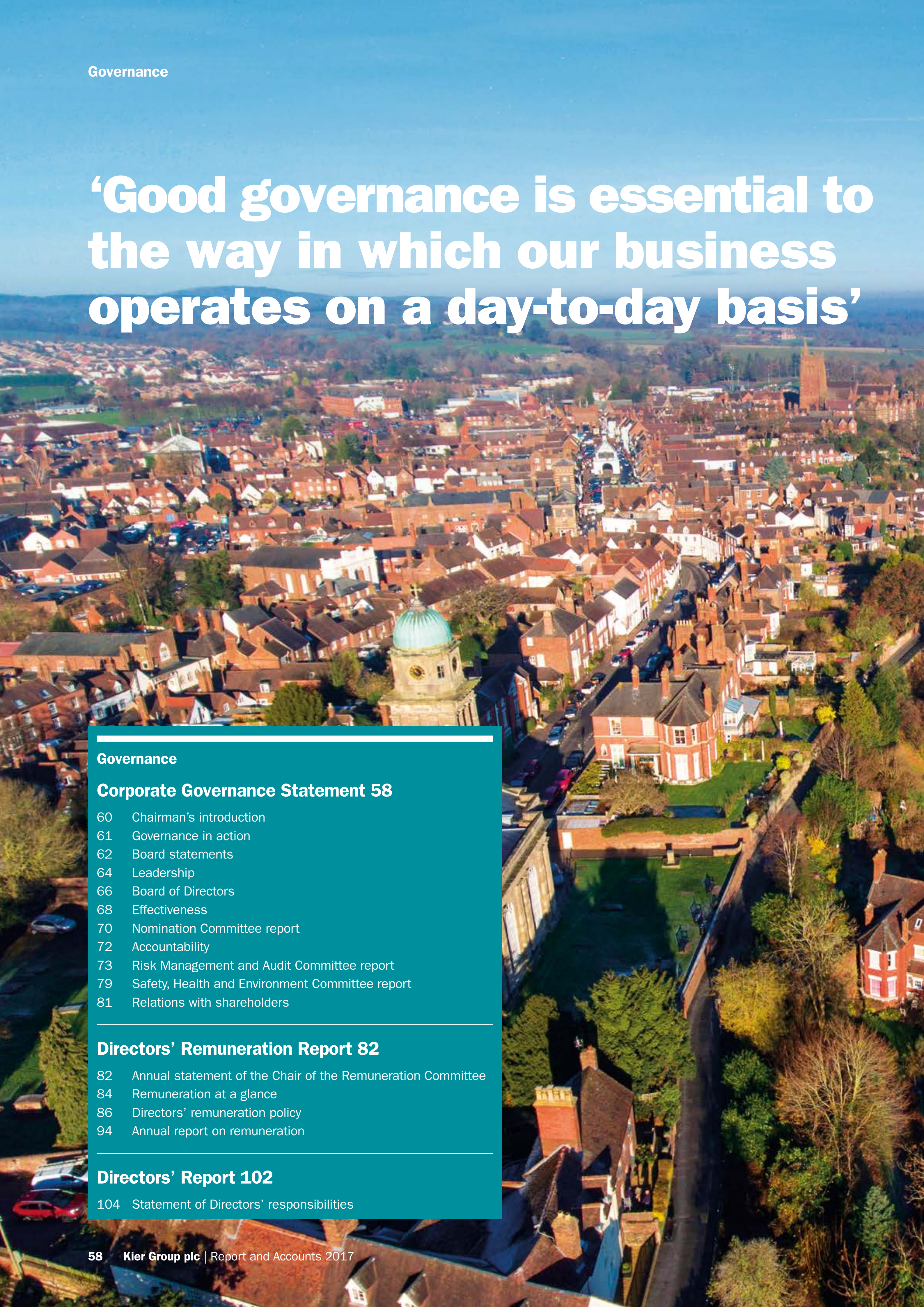
20 September 2017

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

Haydn Mursell
Chief Executive

Bev Dew
Finance Director

20 September 2017



‘Good governance is essential to the way in which our business operates on a day-to-day basis’

Governance

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Shropshire

Chairman's introduction

Q&A
with Philip Cox CBE

Q As the new Chairman, what is your view on the role of governance?

A Good governance is essential to the way in which our business operates on a day-to-day basis; one of the key responsibilities of the Board is to oversee the continuous development of the Group's governance structure so as to support the effective delivery of its strategy.

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 Kier has complied with the UK Corporate Governance Code (April 2016 edition) (the Code).

Q What role does the Board play in setting the culture of the Group?

A We play an important role in setting the Group's culture and, in my initial months at Kier, it is clear that the Board demonstrates the Group's core values – forward-thinking, collaborative and enthusiastic. Throughout the year, the Board has worked well, managing the Group's growth closely and its progress against Vision 2020, in light of some challenging market conditions. It is also important for us to be visible within the business and, during the year, members of the Board have visited a number of the Group's sites, providing an opportunity to hear employees' views on a range of matters. As part of my induction, I have also visited a number of sites and have found this a very useful way of developing my understanding of the business.

Q Have there been any changes to the Board during the year?

A The principal focus of the Nomination Committee was to identify a successor to Phil White as Chairman. The process undertaken by the Committee is summarised on page 71. I am delighted to have been appointed to the role and look forward to working with the Board over the years to come. The only other change to the Board during the year was the appointment of Constance Baroudel as Chair of the Remuneration Committee following the 2016 AGM when Amanda Mellor, the previous Chair, did not stand for re-election.

Q The 2017 Board evaluation was externally-facilitated – what issues did it identify?

A The 2017 Board evaluation confirmed that the Board is effective, with a strong mix of skills. The evaluation also provided a number of areas for us to focus on in 2018, including ensuring that time is set aside to continue to review progress against the Group's strategy and to oversee the continued review of the Group's risk management framework. It also confirmed that the Board has made good progress with respect to the action plan which was agreed following the 2016 Board evaluation process. Further details are set out on pages 68 and 69.

Q The Board is accountable for the Group's management of risk. How has the Board discharged its responsibilities?

A During the year, the Board assessed the principal risks and uncertainties facing the Group, together with its appetite with respect to each of these risks. In light of these assessments, the Board, via the Risk Management and Audit Committee (the RMAC), reviewed the effectiveness of the Group's systems of risk management and internal control. Further details of how the Group manages risk are set out on pages 34 to 36 (inclusive). Please also see page 62 for the statements which, under the Code, the Board is required to provide with respect to the management of risk and other matters.

Q Are there material changes to Kier's remuneration policy this year?

A During the summer of 2017, Constance Baroudel led the consultation with shareholders with respect to a new remuneration policy, which is set out on pages 86 to 93 (inclusive) and is subject to approval by shareholders at the forthcoming AGM. We were grateful to shareholders for the level of engagement and their positive feedback. Shareholders will note that, following the consultation, the Remuneration Committee decided that there was no need to make significant changes to the policy which was approved at the 2014 AGM.

Q What engagement with shareholders has the Board had during the year?

A We remain committed to regular and active dialogue with our shareholders. During the year, and in addition to Constance's meetings with shareholders, our Senior Independent Director, Justin Atkinson, and Phil White met major shareholders to understand their views on a range of issues (including the Chairman's succession and risk management). A number of other investor relations events took place during the year, details of which are provided on page 81.

As the new Chairman, I have written to a number of major shareholders to offer a meeting to introduce myself. I also look forward to meeting shareholders at the AGM on 17 November 2017.

Philip Cox CBE
Chairman

20 September 2017

Governance in action

Strategic priority	The Board's governance role	What we achieved in 2017
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. For further information, please see 'Corporate responsibility' on pages 30 to 33 (inclusive).	› Oversaw a 38% reduction in the Group's reportable accident incidence rate. › Led the culture of 'visible leadership' on safety matters, with regular site visits by members of the Board. › Challenged management to communicate 'lessons learned' from safety and environmental incidents effectively.
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 strategy's delivery. For further information on progress during the year, please see the 'Chief Executive's strategic review' on pages 14 to 19 (inclusive).	› Monitored progress against Vision 2020, with regular reviews during the year. › Completed the acquisition of McNicholas, a leading infrastructure services provider, in July 2017. › Oversaw the 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. For further information on the businesses' performance, please see the divisional reviews on pages 42 to 51 (inclusive).	› Monitored the businesses' performance against a set of formal key performance indicators. › Challenged management to maintain its disciplined approach to working capital management. › Approved management's strategies relating to under-performing businesses.
Provide sector-leading customer experience	The Board, via management, oversees the delivery of services to customers and reviews and challenges reports which provide details of customer feedback. For further information on customer feedback, please see 'Strategic performance' on page 25.	› Challenged management to promote effective client relationship management systems throughout the Group. › Discussed how to strengthen and develop key client relationships. › 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. For further information on the senior management succession plan, please see the Nomination Committee report on pages 70 and 71.	› Reviewed management's processes for identifying, attracting and retaining talent. › The Nomination Committee reviewed the senior management succession plan. › Discussed appointments to senior positions within the business.
Embracing innovation and technology across our business	The Board challenges management to support a focus on innovation to drive the Group's future growth. For further information on steps taken to promote innovative practices, please see 'Strategic performance' on page 27.	› Approved innovation as a new area of focus within Vision 2020. › Reviewed management's proposals to drive innovation throughout the Group. › Oversaw the establishment of a Group-wide innovation forum.

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 2017 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.	'Explanation of non-compliance with the Code' below. 'Application of the main principles of the Code' on page 63.
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 2017 financial statements.	Financial review on pages 52 to 57 (inclusive). Strategic Report on pages 1 to 57 (inclusive). Principal risks and uncertainties on pages 37 to 41 (inclusive). Board statements – 'Going concern' in the Risk Management and Audit Committee report on page 75.
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 30 June 2020, taking into account the Group's current position and certain of the principal risks and uncertainties set out on pages 37 to 41 (inclusive). Following this assessment, 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 37 to 41 (inclusive). 'Systems of risk management and internal control' in 'Accountability' on page 72. 'Board statements – Viability statement' in the Risk Management and Audit Committee report on page 75.
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, via the RMAC, their appetite with respect to these risks and considered the systems required to mitigate and manage them.	Principal risks and uncertainties on pages 37 to 41 (inclusive). 'Assessment of principal risks' in 'Accountability' on page 72.
Annual review of systems of risk management and internal control	During the 2017 financial year, the Board monitored the Group's systems of risk management and internal control, via 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 74.
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 review' in the Risk Management and Audit Committee report on pages 74 and 75.

A full version of the Code can be found on the Financial Reporting Council's website: www.frc.org.uk.

Explanation of non-compliance with the Code

Kier complies with all provisions of the Code other than Code provision B.2.3, which requires 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, the other Non-Executive Directors were not 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, are subject to annual re-election at the Company's AGM and that, in the future, all Non-Executive Directors (other than the Chairman) will be appointed for an initial three-year term.

Application of the main principles of the Code

During the 2017 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 nine times during the year (with other meetings being held during the year to discuss specific matters). There is a clear schedule of matters reserved for the Board (please see page 64 for a summary), 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. The Chairman is responsible for the leadership and effectiveness of the Board. 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 hold meetings at which the Executive Directors are not present.

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, set out on pages 1 to 57 (inclusive), 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, via the RMAC, monitors and annually reviews the effectiveness of the Group's systems of risk management and internal control.

C3 Role and responsibilities of the Risk Management and Audit Committee The Board has delegated a number of responsibilities to the RMAC. The principal activities of the RMAC are summarised in the Risk Management and Audit Committee report on pages 73 to 78 (inclusive).

B. Effectiveness

B1 The Board's composition The Nomination Committee is responsible for regularly reviewing the composition of the Board. In recommending appointments to the Board, the Nomination Committee considers the range of skills, knowledge and experience required, taking into account the benefits of diversity on the Board, including gender.

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 70 and 71.

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. Please see page 68 for details of Constance Baroudel's induction during the year.

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 2017 financial year, the Board undertook an evaluation of its own performance. Details of the evaluation, which was externally-facilitated, can be found on page 69.

B7 Re-election of Directors All Directors were subject to shareholder election or re-election at the 2016 AGM, as will be the case at the 2017 AGM.

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 Directors' Remuneration Report on pages 82 to 101 (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. Please see 'Relations with shareholders' on page 81.

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

- Good progress against Vision 2020, with management challenged to continue to meet targets
- Open and challenging debate at Board meetings, on a wide variety of strategic, financial and operational issues
- Board members undertook a number of visible leadership tours to the Group's sites
- Further reduction in the Group's accident incidence rate

For further information on Kier's strategy and performance, please turn to pages 1 to 57 (inclusive).

As part of his induction, Philip Cox visits Kier Property's Foley Street development in central London.

The Board

The Board is responsible for the effective leadership and the long-term success of the Group.

The Board has delegated certain of its responsibilities to the Board committees. The principal activities of each of these committees during the year are set out in their respective reports in this Annual Report*. 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 www.kier.co.uk/corporategovernance.

* the paragraphs under the heading 'The Remuneration Committee' on page 101 are incorporated by reference into this Corporate Governance Statement.

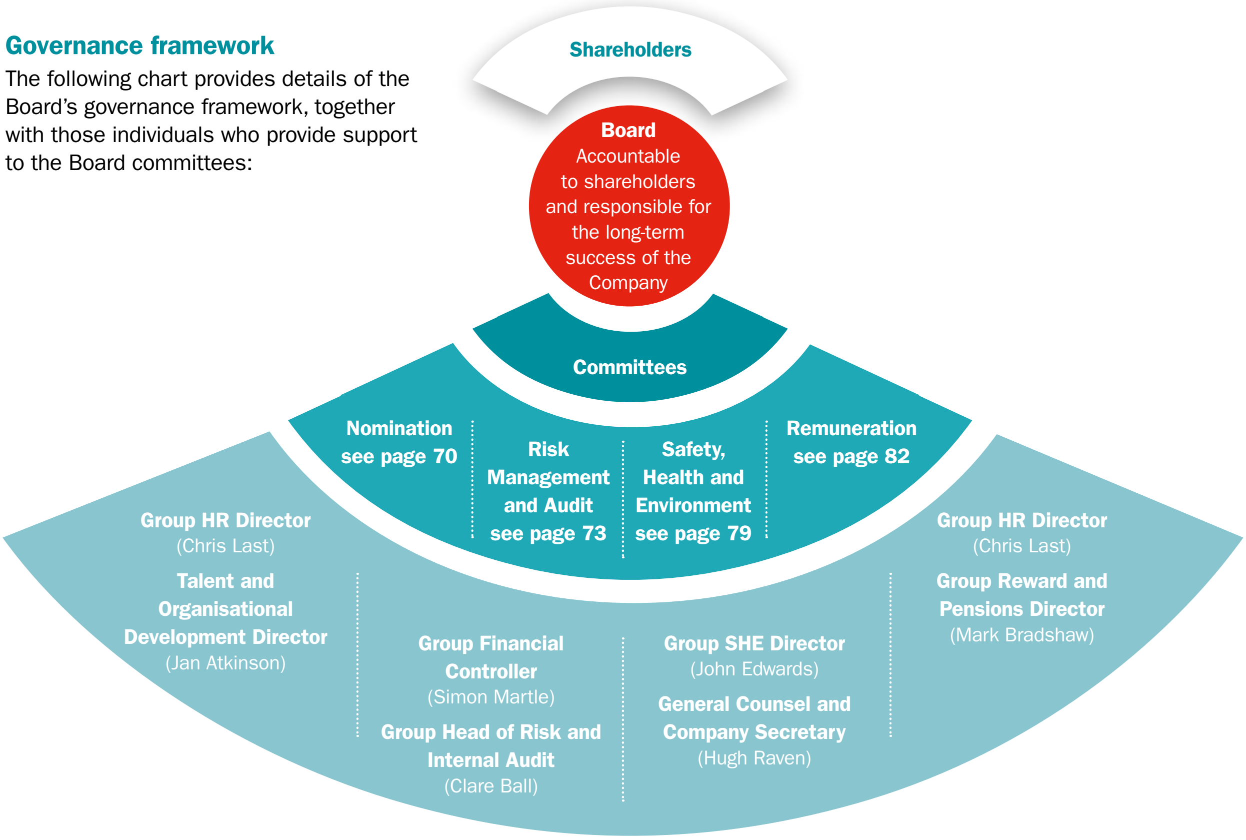
The matters requiring Board approval include, amongst others:

- 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 Executive Directors have significant commercial, financial and operational experience of the markets and sectors within which the Group operates. The diverse range of skills and leadership experience of the Non-Executive Directors enables them to monitor the performance of, provide constructive challenge to and support the Executive Directors. Biographical details of each of the Directors are set out on pages 66 and 67.

Governance framework

The following chart provides details of the Board's governance framework, together with those individuals who provide support to the Board committees:



Board and committee meeting attendance

Board and committee meetings are typically held in London, Tempsford Hall or at one of the Group's regional offices or sites. For example, the October 2016 meeting was held in Dubai and was followed by a site visit to two local projects.

The number of formal Board and committee meetings attended by each Director during the 2017 financial year is as follows:

Director	Board	Nomination Committee	Remuneration Committee	Risk Management and Audit Committee	Safety, Health and Environment Committee
	(9)	(8)	(8)	(4)	(4)
Justin Atkinson	9	8	8	4	4
Constance Baroudel	9	8	8	4	4
Kirsty Bashforth	9	8	8	4	4
Nigel Brook	9	–	–	–	–
Bev Dew	9	–	–	–	–
Amanda Mellor[1]	4	3	3	1	1
Haydn Mursell	9	–	–	–	–
Nigel Turner	9	–	–	–	–
Claudio Veritiero	9	–	–	–	–
Adam Walker	9	8	8	4	–
Phil White[2]	9	2	8	—	–
Nick Winser	9	8	8	4	4

The Board and its committees held a number of other meetings to discuss specific matters or issues during the year. Certain Executive Directors attended certain committee meetings; please see the respective committee reports in this Corporate Governance Statement for further details.

1 Amanda Mellor retired from the Board with effect from 18 November 2016 and attended all Board and committee meetings which occurred prior to that date.

2 Phil White did not attend Nomination Committee meetings where the principal purpose of the meeting was to consider the Chairman's succession, but attended all other Nomination Committee meetings during the year (other than that held in June 2017, when he was absent due to a medical appointment).

Board composition

As at the date of this Annual Report, the Board comprises 11 Directors, of which six are Non-Executive Directors (including the Chairman) and five are Executive Directors.

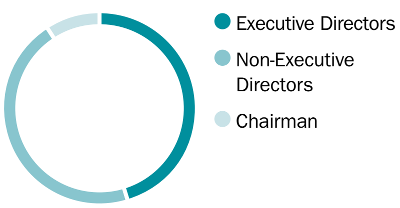
During the 2017 financial year:

- Constance Baroudel was appointed as a Non-Executive Director with effect from 1 July 2016 and as Chair of the Remuneration Committee with effect from the conclusion of the AGM on 18 November 2016;
- Amanda Mellor retired from the Board, and as Chair of the Remuneration Committee, with effect from the conclusion of the AGM on 18 November 2016; and
- on 23 March 2017, we announced the appointment of Philip Cox as a Non-Executive Director and Chairman Designate with effect from 1 July 2017.

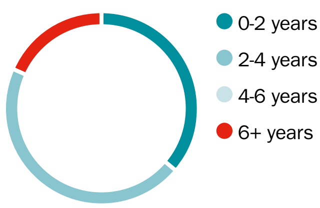
On 1 August 2017, we announced that Phil White would retire as Chairman on 31 August 2017 and that Philip Cox would take over the role of Chairman from 1 September 2017.

Details of the Board's composition, tenure and gender balance (as at the date of this Annual Report) are as follows:

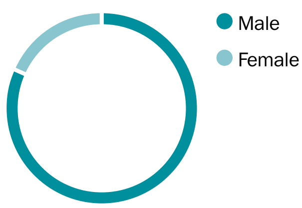
Board composition



Board tenure



Board balance



Corporate Governance Statement

Board of Directors

From left to right: Hugh Raven, Nigel Turner, Philip Cox CBE, Constance Baroudel, Haydn Mursell, Justin Atkinson

Philip Cox CBE (65)

Chairman

Tenure on Board: 2 months

Independent: Yes (on appointment)

Committee memberships: N R

Relevant skills and experience:

- A Fellow of the Institute of Chartered Accountants, having trained and qualified as a chartered accountant at a predecessor firm of PwC
- Substantial commercial, financial and operational experience
- Particular experience of the energy and power sectors, as the former Chief Executive of International Power and as the former Chairman of Global Power Generation
- Experienced in mergers and acquisitions and strategy development
- Significant experience on boards of listed companies in both executive and non-executive roles

Principal current external appointments:

- Chairman, Drax Group

Justin Atkinson (56)

Senior Independent Director

Tenure on Board: 1 year, 11 months

Independent: Yes

Committee memberships: N R RA S

Relevant skills and experience:

- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- Formerly Chief Executive of Keller Group from 2004 to 2015
- Significant operational and financial experience, having also been Keller's 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
- Non-Executive Director of Sirius Real Estate
- A member of the Audit Committee of the National Trust

Haydn Mursell (46)

Chief Executive

Tenure on Board: 6 years, 10 months

Independent: No

Tenure as Chief Executive: 3 years, 2 months

Committee memberships: None

Relevant skills and experience:

- A chartered accountant, having trained and qualified at KPMG in London
- 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
- Strong track record in mergers and acquisitions, both at Kier and in previous organisations

Principal current external appointments:

- None

Constance Baroudel (43)

Non-Executive Director

Tenure on Board: 1 year, 2 months

Independent: Yes

Committee memberships: N R RA S

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
- Previous experience as Chair of the Remuneration Committee at Synergy Health

Principal current external appointments:

- Group Director of Strategy and Operational Performance, First Group

Nigel Turner (52)

Executive Director – Developments, Property and Business Services

Tenure on Board: 2 years, 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
- 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

Hugh Raven (45)

General Counsel and Company Secretary

Tenure as Company Secretary: 7 years, 5 months

Independent: n/a

Committee memberships: None

Relevant skills and experience:

- A solicitor, having qualified with Linklaters LLP, and a former Partner of Eversheds LLP
- Significant experience of a wide variety of legal and regulatory issues, having advised a number of public and private companies
- Particular expertise in large corporate transactions, including capital raisings (debt and equity) and mergers and acquisitions
- Expertise in corporate governance matters and best practice

Principal current external appointments:

- None

Chairman succession

Phil White retired as Chairman and from the Board on 31 August 2017. Philip Cox CBE was appointed to the Board on 1 July 2017 and became Chairman on 1 September 2017.

Board committees key

- N Nomination Committee
- R Remuneration Committee
- RA Risk Management and Audit Committee
- S Safety, Health and Environment Committee
- ○ Chair of the Committee

From left to right: Nick Winser CBE, Bev Dew, Kirsty Bashforth, Claudio Veritiero, Adam Walker, Nigel Brook

Nigel Brook (59)

Executive Director – Construction and Infrastructure Services

Tenure on Board: 2 years, 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

Kirsty Bashforth (47)

Non-Executive Director

Tenure on Board: 3 years

Independent: Yes

Committee memberships: N R RA S

Relevant skills and experience:

- In-depth global, commercial, safety and risk management and operational experience, following 24 years at BP
- Strong track record in group-wide change management and organisational effectiveness
- Founder and CEO of Quayfive, advising on organisational dynamics
- Wide range of experience in a variety of human capital areas, including engagement, diversity and ethical working practices

Principal current external appointments:

- Non-Executive Director of Serco
- Governor at Leeds Beckett University (Finance, Staffing & Resources Committee, Governor Champion – Equality & Diversity)
- Governor, Ashville College (Strategy, Policy and Developments Committees)

Bev Dew (46)

Finance Director

Tenure on Board: 2 years, 8 months

Independent: No

Committee memberships: None

Relevant skills and experience:

- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- 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

Adam Walker (49)

Non-Executive Director

Tenure on Board: 1 year, 8 months

Independent: Yes

Committee memberships: N R RA

Relevant skills and experience:

- A chartered accountant, having trained and qualified at a predecessor firm of Deloitte
- A wealth of experience in financial matters, having been a finance director at three listed companies
- Operational experience through his former 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

Claudio Veritiero (44)

Executive Director – Group Strategy and Corporate Development

Tenure on Board: 2 years, 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

Nick Winser CBE (57)

Non-Executive Director

Tenure on Board: 8 years, 6 months

Independent: Yes

Committee memberships: N R RA S

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 former role as a member of the board of directors of National Grid from 2003 to 2014
- Experienced in dealing 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
- President of the Institution of Engineering and Technology
- Chairman of the Power Academy
- Chair of the MS Society

Effectiveness

Highlights

- Completion of Constance Baroudel's induction
- Good progress made in relation to Philip Cox's induction
- Completion of action plan following the 2016 Board evaluation

For information on how the Nomination Committee operates, please turn to pages 70 and 71 (inclusive).

Director induction

All Directors undertake a full, formal and tailored induction programme on joining the Board. By way of example, a summary of the induction undertaken by Constance Baroudel (who was appointed to the Board with effect from 1 July 2016) is as follows:

- Meetings with the Chairman and other Board members
- Meetings with the Chief Executive, the Finance Director and other members of senior management
- Briefing from the General Counsel and Company Secretary
- Briefings from the Company's advisers, including the auditors and corporate brokers
- Site visits

Ongoing training and development

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.

The training which was made available to the Board during the year included seminars or presentations relating to:

- board effectiveness
- corporate reporting
- risk management
- corporate governance
- cyber security
- the EU Market Abuse Regulation.

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, health and safety, performance against the Group's strategy 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, sufficiently 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.

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 Nomination Committee remains satisfied that all Non-Executive Directors have sufficient time to meet their commitments to the Company. Philip Cox's other commitments were disclosed to the Board before his appointment as Chairman Designate.

The major commitments of the Directors are outlined on pages 66 and 67.

Re-election of Directors

As it is the first AGM since his appointment, a resolution will be proposed to elect Philip Cox as a Director at the AGM on 17 November 2017. All other Directors will offer themselves for re-election at the AGM.

The Board considers that each of the Non-Executive Directors is independent. In March 2018, Nick Winser will have served as a Director for nine years, having been appointed in March 2009. The Board remains satisfied that Nick continues to be independent in character and judgement and that there are no relationships or circumstances which are likely to affect his ability to exercise independent judgement or to act in the best interests of the Company. The Board also considers that Nick continues to play an important role as the Chairman of the SHE Committee and that his experience will support the transition to the new Chairman. The Board therefore considers it appropriate to propose Nick for re-election at the AGM.

2016 Board evaluation – progress against action plan

The 2016 Board evaluation highlighted a number of areas of focus for the Board in 2017. A summary of progress against these areas (which was assessed in the 2017 evaluation; please see page 69) is as follows:

Area of focus	Specific action	Progress made
Succession planning	Review of Executive Director succession plan	Formal reviews of the plan took place at Nomination Committee meetings throughout the year
	Commence Chairman's succession planning	Philip Cox CBE was appointed as Chairman
Remuneration Committee	Review of information provided to the Committee	Continuous assessment of the information provided; positive feedback received in 2017 evaluation
	Review of remuneration consultants	Following a tender process, Mercer was re-appointed
Risk management	Continue to review the Group's risk management framework	Ongoing; to be continued in the 2018 financial year
	Review the respective roles of the Board and the RMAC in relation to the management of risk	The Board and the RMAC formally agreed a schedule setting out their respective roles
Review of material contracts	Agree criteria for material contracts and tenders to be reviewed by the Board	A schedule setting out the criteria was approved by the Board and included in the schedule of matters reserved for the Board

2017 Board effectiveness review

The 2017 Board effectiveness review was externally-facilitated by Judith Hardy of Aretai LLP. Neither Judith Hardy nor Aretai LLP has any other connections with the Company.

A summary of the process is as follows:

Areas of focus

Leadership
- Operation of the Board and its committees
- The Board's role in setting and monitoring progress against the Group's strategy
- Relationships with senior management

Remuneration
- The effectiveness of the Remuneration Committee
- The process for determining the Group's remuneration policy
- The link between executive remuneration and the long-term success of the Company

Effectiveness
- Decision-making
- Board culture, composition and succession planning
- Meetings and Board administration

Relations with shareholders
- The effectiveness of the Group's IR programme
- The effectiveness of the AGM and other set-piece communications
- The quality and frequency of engagement with shareholders

Accountability
- The Board's role in overseeing the Group's corporate reporting
- The effectiveness of the RMAC
- The reporting of material issues to the Board

Process

Interviews with each of the Directors and other key individuals (including external advisers)
(April – May 2017)

A review of Board and committee papers and other materials
(May 2017)

Attendance and observation at Board and committee meetings
(May 2017)

Written report presented to the Board
(June 2017)

Action plan agreed by the Board
(August 2017)

Conclusions

The review confirmed that, although there had been significant changes to the Board since the last externally-facilitated review in 2014, good progress had been made since then and, overall, the Board was effective, with a strong mix of skills. The review highlighted the Board's key strengths and made recommendations as to how the Board could continue to develop them. A summary of the feedback and the principal areas of focus for 2018 is as follows:

Key strengths	Principal areas of focus for 2018
Clearly articulated strategy	Comprehensive review of progress against the strategy
Ambitious executive team	Promote regular and effective interaction between the Executive and Non-Executive Directors
Strong mix of Non-Executive Director skills and experience	Under a new Chairman, clarify the priorities of the Nomination Committee with respect to the skills, knowledge, experience and diversity of the Board
Constructive and challenging Board debates on a wide range of issues	Balance the Board discussion between operational and financial matters and strategic themes
A clear focus on effective risk management	Oversee the continuous review of the Group's risk management framework

Nomination Committee report

"The Nomination Committee has a vital role in ensuring that the Board has the right mix of skills and experience to deliver the Group's strategy – and for identifying tomorrow's leaders."

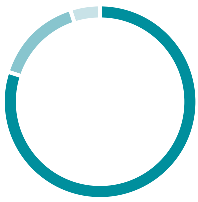
Philip Cox CBE
Chair

Nomination Committee members

Philip Cox (Chair)	Kirsty Bashforth
Justin Atkinson	Adam Walker
Constance Baroudel	Nick Winser

Phil White retired as the Chair of the Committee on 31 August 2017. Amanda Mellor retired as a member of the Committee on 18 November 2016.

Allocation of time



Dear shareholder

Following Phil White's retirement as the Chair of the Committee, I am pleased to present the Nomination Committee report, which provides a summary of the Committee's activities during 2017.

Role

The role of the Committee includes:

- 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 www.kier.co.uk/corporategovernance.

Committee composition and meeting attendance

The names of the members of the Committee are set out above.

At the invitation of the Committee, any other Director may attend meetings of the Committee. During the year, the Chief Executive attended certain of the meetings at which the Chairman's succession process was discussed and the Chief Executive, the Group HR Director and the Group Head of Talent and Organisational Development attended meetings to discuss Executive Director succession planning.

The secretary of the Committee is the Company Secretary (Hugh Raven).

The Committee met formally eight times during the year; details of attendance at these meetings are set out on page 65.

Committee performance evaluation

2017 – progress against 2016 evaluation

The 2016 Board evaluation identified:

- a need for regular reviews of the Executive Director succession plan; and
- the commencement of the Chairman's succession process

as being the two key areas of focus for the Committee in the 2017 financial year. The 2017 Board evaluation process confirmed that the Committee had made good progress with respect to the Executive Director succession plan and the Committee oversaw the appointment of a new Chairman during the year.

2018 – principal areas of focus

Following the 2017 Board evaluation, the Committee's principal areas of focus for the 2018 financial year include:

- clarifying the Committee's immediate priorities, following the appointment of a new Chairman; and
- reviewing the skills, knowledge, experience and diversity of the Board.

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 recommendations in the five-year review of Lord Davies' Report (October 2015) and the Hampton-Alexander Review (November 2016), one of which is that there should be a minimum representation of women on FTSE350 company 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 an important consideration when reviewing the Board's future composition.

Principal activities – 2017 financial year

The Committee's two principal activities during the year were overseeing the Chairman's succession and reviewing the Executive Director succession plan. In addition, the Committee oversaw Constance Baroudel's induction to the Board (please see page 68).

Chairman's succession

The process for identifying and appointing a successor to Phil White as Chairman was led by the Senior Independent Director, Justin Atkinson. The Committee appointed Korn Ferry (which has no other connection with the Company) to assist it in the process. Phil White did not attend any of the Committee's meetings at which the process was discussed and was not involved in the selection or appointment of his successor.

The key elements of the role profile for the new Chairman included:

- strong experience of overseeing the implementation of strategy;
- a familiarity with tight margin business environments and the associated risks; and
- an ability to manage multiple stakeholders effectively.

A summary of the process is as follows:

Sept 2016	Oct 2016	Nov 2016	Dec 2016	Jan to Mar 2017	Mar 2017
Commencement of the Chairman's succession process	**Korn Ferry appointed to assist the Committee (following a detailed selection process)**	**Korn Ferry met Board members individually to discuss the role. Role profile agreed by the Committee**	**Committee meeting, with Korn Ferry, to agree a list of candidates for interview**	**Interviews held by members of the Committee with candidates; feedback discussed; references taken**	**Preferred candidate identified; agreement of letter of appointment; Committee recommendation; announcement of appointment**

Executive Director 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 in recent years and also to oversee the delivery of the Group's strategy.

During the year, the Committee has worked closely with the Group HR Director and the Group Head of Talent and Organisational Development to identify a pipeline of potential future Board members. A summary of some of the key elements of the approach adopted, and discussed with the Committee, is as follows:

Action	Why?	Progress	Next steps
Using business psychologists (Deloitte), assessment of the Executive Committee (ExCo), senior management and selected other individuals	To obtain a consistent and objective assessment of the strengths, development areas and potential of individuals	Approximately 100 individuals have been assessed	Assessments to be conducted on selected other individuals on a case-by-case basis
ExCo members and others drafted development plans	To provide a framework for continuing personal development	Reviews of progress against plans conducted with ExCo members	ExCo members to share aspects of their plans with Kier leaders. Others will be challenged to deliver agreed actions
First 'fast potential' leadership talent cohort ('Accelerate') launched	To provide a dedicated, focused development programme for those identified as having 'fast potential' as leaders	See 'Action'	Members of first cohort to report back on progress; potential future candidates to be identified
Appointment of ExCo sponsor for balanced business agenda – Claudio Veritiero (Group Strategy and Corporate Development Director)	To drive the ExCo's strategy for tangible action to increase diversity throughout the Group	ExCo oversight of senior level vacancies; continued targeted action on hiring and promotion; and increased focus on mentoring and targeted development for female talent	Continue to focus on the steps highlighted under 'Progress'
Developing 'early careers opportunities' for talent below Accelerate level	To broaden the experience of talent at the early stage of careers	Actions include internal secondments; membership of the CBI Leadership Programme; and media and IR skills training	Continue to focus on the steps highlighted under 'Progress'

Conclusion

I will be available to answer any questions about the Committee, our work and how we operate at the AGM on 17 November 2017.

Philip Cox CBE
Chair of the Nomination Committee

20 September 2017

Accountability

Highlights

- Successful establishment of a single finance shared services centre (the FSSC)
- Good progress with respect to the Group's new ERP system
- Systems of risk management and internal controls assessed as being effective

For further information on how we manage risk, please turn to pages 34 to 36 (inclusive).

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, 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 Group Head of Risk and Internal Audit, who has direct access to the RMAC and its Chair, reports to the RMAC on strategic risk issues and oversees the Group's risk management framework. Working with the Group Head of Risk and 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. A summary of how the Group identifies and manages risk is set out on pages 34 to 36 (inclusive).

During the 2018 financial year, the Board and the RMAC will continue to oversee the review of the Group's risk management framework, which is summarised on pages 34 and 35.

To support this framework, the Group has a 'whistleblowing' helpline which enables employees to raise concerns in confidence. Further information about the helpline is set out under 'Systems of risk management and internal control – Whistleblowing arrangements' in the Risk Management and Audit Committee report on page 74.

Effectiveness review

The Code requires that the Board conducts an annual 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 74.

Financial reporting

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'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.

By way of example, a summary of the process for signing-off the 2017 financial statements is:

Business units produce year-end packs for central review
(July and early August)

Central consolidation process and drafting the Group's financial statements
(August)

Audit close-out meetings, RMAC review and Board approval
(August and September)

During the year, the Board oversaw:

- the establishment of the FSSC, based in Manchester; and
- significant progress with respect to the implementation of the Group's new ERP system.

Both the FSSC and the new ERP system have delivered significant improvements to the Group's financial reporting processes.

Assessment of principal risks

During the year, the Board conducted a review of the Group's principal risks and uncertainties, together with its appetite with respect to each such risk. A summary of the review process is as follows:

Individual meetings with the ExCo to assess their risk appetite against the Group's strategic priorities
(January – March 2017)

ExCo meeting to agree a collective risk appetite with respect to these priorities
(March 2017)

Tolerance range and measurement metrics agreed
(April – May 2017)

ExCo identified specific risks relating to the business; please see 'Principal risks and uncertainties' on pages 37 to 41 (inclusive)
(July and August 2017)

Board assessment of its risk appetite
(August 2017)

The Board's statement relating to its assessment of the Group's principal risks and uncertainties is set out on page 62.

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 74 and 75. 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

"Effective systems of risk management and internal control are essential to support the Group's continued growth and accountability to shareholders is based on fair, balanced and understandable reporting."

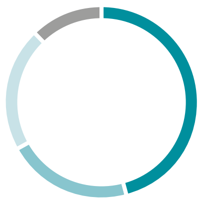
Adam Walker
Chair

RMAC Committee members

Adam Walker (Chair)	
Justin Atkinson	Kirsty Bashforth
Constance Baroudel	Nick Winser

Amanda Mellor retired as a member of the Committee on 18 November 2016.

Allocation of time



Dear shareholder

I am pleased to present the Risk Management and Audit Committee report, which provides a summary of the Committee's activities during the 2017 financial year.

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;
- reviewing the adequacy and effectiveness of the Group's systems of risk management and internal control;
- reviewing 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, assessing its effectiveness and approving the provision of non-audit services.

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

Committee composition and meeting attendance

The names of the members of the Committee are set out above.

As a chartered accountant and the Finance Director of GKN plc, I am considered by the Board to have recent and relevant financial experience and competence in accounting and auditing. The Committee has competence relevant to the sectors in which the Group operates, for example:

- Justin Atkinson: a qualified accountant, has previous executive experience in the contracting sectors with Keller;
- Constance Baroudel: has experience of the risks associated with strategy implementation;
- Kirsty Bashforth: has particular experience of the risks relating to change management programmes; and
- Nick Winser: a qualified civil engineer, has significant experience in the contracting sector.

Please see 'Board of Directors' on pages 66 and 67 for further details of the Committee members' experience.

The following were also in attendance at Committee meetings:

- the Finance Director;
- other members of the Board, when considered appropriate – for example, the Chairman and the Chief Executive attended the September 2016 and March 2017 meetings to consider the Group's results and other Executive Directors attended meetings when key accounting judgements on contracts were discussed;
- the Group Financial Controller and representatives from PwC for external audit matters; and
- the Group Head of Risk and Internal Audit and representatives from KPMG for internal audit matters.

Outside the formal meetings, I met members of management (including the Finance Director), PwC and KPMG to discuss a number of matters relating to the operation of the Committee.

The secretary of the Committee is the Company Secretary (Hugh Raven).

The Committee met formally four times during the year; details of attendance at these meetings are set out on page 65.

Committee performance evaluation

2017 – progress against 2016 evaluation

The 2016 Board evaluation identified the following as key areas of focus for the Committee in the 2017 financial year:

- continuing to review the Group's risk management framework; and
- agreeing the respective roles of the Board and the Committee with respect to the management of risk.

Following the appointment of a new Group Head of Risk and Internal Audit, good progress was made with respect to the review of the risk management framework, which will remain a principal area of focus for the Committee in 2018. The Board and Committee agreed their respective roles in relation to the management of risk.

2018 – principal areas of focus

The Committee will focus on:

- ensuring that the Group's systems of risk management and internal control continue to support the Group's growth; and
- challenging PwC to continue to audit the Group's financial statements robustly.

Principal activities – 2017 financial year

The following matters were considered during the Committee meetings which took place during the year:

	Sept	Dec	Mar	June
Financial reporting				
Full-year results and announcement	●			
Half-year results and announcement			●	
Significant accounting judgements	●		●	
Going concern statement	●		●	
Viability statement	●			
Fair, balanced and understandable statement	●		●	
Dividend	●		●	
Annual Report	●			
External audit				
Management representation letter	●		●	
Evaluation of external auditor's effectiveness		●		
Re-appointment of external auditor	●			
Non-audit fees	●	●	●	●
Non-audit fee policy			●	
External audit plan				●
Internal audit				
General update	●	●	●	●
Evaluation of internal auditor's effectiveness		●		
Approval of internal audit plan				●
Risk management				
General update		●	●	●
Systems of risk management and internal control assessment	●			
Other				
Whistleblowing and compliance update	●	●	●	●
Review of terms of reference				●

Systems of risk management and internal control

General

Information on how the Group manages risk, including a description of the principal aspects of the Group's systems of risk management and internal control, is set out on pages 34 to 36 (inclusive).

Effectiveness review

The Code requires the Board, at least annually, to conduct a review of the effectiveness of the Group's systems of risk management and internal control. The Board's statement about this review is set out on page 62.

At its meeting in September 2017, the Committee reviewed management's assessment of the key elements of these systems and confirmed their overall effectiveness. In forming its conclusion, the Committee noted, in particular, that:

- during the year, KPMG conducted a number of internal audits and worked with management to ensure that actions were closed-out appropriately. Please see page 77 for examples;
- the FSSC had been set up during the year, introducing common systems and procedures across the Group;
- management continued to review the Group's key financial controls to ensure that they supported the Group's continued growth; and
- good progress continued to be made in relation to the transition to the Group's new ERP system.

Whistleblowing arrangements

The Group makes available an externally-hosted 'whistleblowing' helpline, which employees can call, in confidence, if they have any concerns about improprieties in financial reporting or other matters. Any such concerns are then investigated.

During the year, the Committee oversaw management's appointment of a new helpline provider, Safecall. To accompany this appointment, management implemented a programme to raise awareness of the helpline throughout the Group. At each Committee meeting during the year, the Committee reviewed reports which provided details of the issues reported to the helpline and how management had investigated them. No material issues were reported to the helpline or via other means during the year.

Board statements

Introduction

Under the Code, the Board is required to provide a number of statements, as set out on page 62. 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 review

The work undertaken by management and the Committee to support the Board's statement included:

- 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 confirming that, in their opinion, the sections drafted by them were 'fair, balanced and understandable';

- requesting that certain key contributors to sections of the Annual Report (for example, Managing Directors and Finance Directors of business units) sign a declaration confirming the accuracy of the information provided;
- arranging for FutureValue (a corporate reporting consultancy) to review the Annual Report and for Mercer, the Company's remuneration consultants, to review the Directors' Remuneration Report;
- circulating drafts of the Annual Report to PwC, the Committee and the Board for review; and
- discussing material disclosure items at a meeting of the Committee held in September 2017.

The Committee discussed the 'fair, balanced and understandable' statement at its meeting in September 2017 and, having done so, recommended that the Board provide it in the form set out on page 62.

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 in various material downside scenarios;
- assessing the level of available bonding facilities, which are considered necessary to support the Group's ability to tender and deliver future growth; and
- assessing the Group's current and forecast activities, including its long-term contracts and order books, and those factors considered likely to affect its future performance and financial position.

The Committee discussed the going concern statement at its meeting in September 2017 and, having done so, recommended that the Board provide it in the form set out on page 62.

Viability statement

The Directors have chosen to consider the prospects of the Group over a three-year period ending 30 June 2020, as they consider it to be a period over which they are able to forecast the Group's performance with reasonable certainty.

In particular:

- a number of programmes relating to the Group's key construction projects, which are important factors in an assessment of the Group's performance, operate over a three-year period;
- the visibility of the Group's secured work and bidding opportunities can reasonably be assessed over a three-year period; and
- the KPIs contained in Vision 2020 cover a three-year period ending 30 June 2020.

The Committee's assessment included a review of the potential impact of severe but plausible scenarios that could threaten the viability of the Group and the effectiveness of the potential mitigations that management believes would be available. These scenarios included a significant downturn in the property market, followed by a similar effect on the UK construction market, and a decline in the UK infrastructure market. The Committee discussed the viability statement at its meeting in September 2017 and, having done so, recommended that the Board provide it in the form set out on page 62.

2017 financial reporting

The audit

At its meetings in June and September 2017, the Committee discussed the 2017 audit process. The following is a summary of the key issues discussed by the Committee and PwC at these meetings:

Meeting	Issue	Outcome/action taken by the Committee
June	PwC's audit plan	Challenged and agreed by the Committee
	PwC's audit risk assessment	Discussed with PwC (including the approach to identified risks)
	Materiality level for the audit	Agreed with PwC (at a similar level to 2016)
	PwC's resources	Reviewed and discussed with PwC
	Audit fee and terms of engagement	Reviewed, challenged and approved by the Committee
September	Review of PwC's audit plan	PwC confirmed no material changes made to agreed plan
	Audit findings, significant issues and other accounting judgements	Discussed with PwC and management
	Management representation letter	Reviewed and approved by the Committee
	PwC's independence and objectivity and quality control procedures	Independence and objectivity confirmed; quality control procedures reviewed by the Committee

During the audit, I met PwC's lead audit partner to discuss the process. Following the conclusion of the September meeting, the Committee met PwC without management being present: no significant issues, other than those discussed at the Committee meeting, were raised.

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. Following discussions with management and PwC, the Committee also determined that the significant issues and other accounting judgements relating to the 2017 financial statements are as shown in the table below.

Significant issues and accounting judgements	Action undertaken by the RMAC/Board
Valuation of land and properties	The Group holds inventory within the Residential and Property divisions, primarily comprising land held for 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. Inventory in these divisions is stated at the lower of cost and net realisable value (i.e. the forecast selling price, less the remaining costs to build and sell). An assessment of the net realisable value was carried out as at 30 June 2017 and requires management to estimate forecast selling prices and build costs, which may require significant judgement. One of the key elements of the systems of risk management and internal control within these divisions is the development appraisals prepared by management, using a number of internal and external reference points. Accordingly, PwC challenged these appraisals in a number of ways, including: (in Residential) reviewing management's expected build costs and challenging forecast sales prices and (in Property) reconciling the development appraisals to the work-in-progress summary, interviewing those responsible for each development and, where applicable, obtaining independent evidence to support the rental and yield rates adopted in the appraisal. PwC's conclusion, following these steps, is set out in the independent auditor's report on page 106.
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 reviewed and considered management's latest assessment of the forecast costs of, and revenues from, certain long-term contracts, particularly those in the Infrastructure and International businesses – for example, the Group's projects for MTR in Hong Kong and in St. Kitts. The Committee identified accounting for long-term contracts as one of the principal matters for review by PwC in the 2017 audit. As part of its work, PwC reviewed the forecast 'end life' positions, challenging the judgements applied by management (in particular, the key assumptions on which they are based), and reviewed correspondence and contracts to assess whether these support the judgements. The Committee discussed management's assessment of such contracts with PwC and management when considering the interim and year-end financial statements at its meetings in March and September 2017, respectively. PwC's conclusion is set out in the independent auditor's report on page 107. During the year, the Board also obtained advice from the Company's corporate brokers with respect to such long-term contracts.
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 Committee identified the accounting treatment of non-underlying items as one of the principal matters for review by PwC in the 2017 audit. PwC challenged management as to the appropriateness of the classification of each item, focusing on those items which PwC considered to be more judgemental in nature than others (which included the contract loss elements of the Caribbean and Hong Kong exit costs). PwC's conclusion as to the presentation of the non-underlying items is set out in the independent auditor's report on page 108. During the year, the Board also obtained advice from the Company's corporate brokers with respect to such non-underlying items.

Internal audit

Internal audits – 2017 financial year

During the year, the Committee monitored progress against the 2017 internal audit plan, which was approved by the Committee at its June 2016 meeting. Results from each follow-up audit were discussed by the Committee, together with actions taken by management.

KPMG (the co-sourced internal auditor) completed 15 internal audits during the year. Examples of these audits include:

- ERP – payroll process implementation
- safety information reporting
- subcontractor procurement
- tax governance
- tender management and pricing
- treasury management

Before each audit, KPMG agreed the scope of review, timetable and resources required with management. KPMG also provided regular updates to management and members of the Committee on the status of ongoing audits.

Internal audit function effectiveness

To assess the effectiveness of the internal audit function, members of the Committee and senior management completed a detailed questionnaire addressing various aspects of both the internal audit function and KPMG's performance. The feedback was then reviewed by the Committee at its meeting in December 2016. During the year, a new Group Head of Risk and Internal Audit was appointed, to work alongside and manage KPMG with respect to the delivery of the internal audit plan.

The Committee concluded that, overall, the internal audit function was operating effectively. A summary of the results of the review is as follows:

Strengths

- Dedicated and focused team
- Good understanding of the business
- Clear audit reports, challenging the business to manage risk effectively

Future areas of focus

- Continue to ensure effective communication of material issues to the Committee
- Ensure appropriate engagement with the businesses
- Continue to close-out identified issues promptly

Internal audits – 2018 financial year

At its June 2017 meeting, the Committee approved the 2018 internal audit plan. Examples of audits planned for the 2018 financial year include:

- business continuity process compliance
- contract management governance
- Group procurement function
- HR processes
- joint venture reporting
- work-in-progress and debt management.

External audit

General

The Committee is responsible for overseeing the relationship with the external auditor, its effectiveness and the audit process, by:

- approving the annual audit plan;
- monitoring the external audit process;
- making recommendations to the Board in relation to the auditor's appointment, re-appointment and removal;
- approving its remuneration and terms of engagement;
- reviewing and monitoring its independence and objectivity; and
- developing and implementing a non-audit services policy.

External auditor effectiveness

During the year, the Committee conducted an evaluation of PwC's performance (with respect to the 2016 audit). A questionnaire was issued to key stakeholders, including members of the Committee and those involved in the 2016 audit. Feedback from the evaluation was discussed by the Committee at its meeting in December 2016 and was subsequently provided to PwC so that it could be taken into account when planning the 2017 audit.

The Committee concluded that, overall, PwC had operated effectively and had provided an appropriate level of challenge during the 2016 audit. A summary of the results of the review is as follows:

Strengths

- The audit plan was thorough and detailed, focusing on the key issues
- Collaborative, but challenging, approach taken by the audit team when engaging with the business
- Significant technical awareness and expertise evident throughout the audit team

Future areas of focus

- Refreshing communication protocols so as to expedite the audit process
- So far as possible, maintaining continuity of audit team members
- Ensuring a depth of industry-specific knowledge across the audit team

The Committee will formally assess PwC's performance in relation to the 2017 audit during the 2018 financial year. However, the Committee discussed its preliminary views at its meeting in September 2017 and concluded that, overall, it remained 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 re-appoint PwC as the external auditor will therefore be proposed at the 2017 AGM.

External auditor independence and non-audit services

During the year, PwC provided certain non-audit services to the Group. The Committee monitors the level and scope of these services to ensure that the associated fees are not of a level that would affect PwC's independence and objectivity.

In March 2017, the Committee approved a revised non-audit services policy, which reflects the FRC's revised Ethical Standards for Auditors. The policy provides that the Committee expects that the level of non-audit fees in any one financial year will not exceed 15% of the audit fee payable in relation to the previous year.

The limits of authority within the policy are:

Fees	Approval required
Up to £10,000	The Finance Director may authorise fees on individual assignments (not exceeding £50,000 in any financial year).
Above £10,000	Must be approved in advance by the Committee. The Chair of the Committee may provide urgent approval (subject to the subsequent reporting of the approval to the Committee).

Non-audit fees incurred during the year were £85,000, which is approximately 7% of the 2017 audit fee of £1,266,000. The non-audit fees related to sustainability reporting assurance (£50,000) and the 2017 interim financial statements review (£35,000). The Committee concluded that PwC's independence and objectivity was not compromised by it providing these services and that, as a result of its knowledge of the Group and its financial statements, it was in the Group's interests to engage PwC to do so.

PwC first audited the Group's financial statements in the 2015 financial year. The lead audit partner since that date has been Jonathan Hook. PwC requires the lead audit partner to change after five years. As part of the 2017 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 continues to demonstrate appropriate independence and objectivity.

Conclusion

I will be available to answer any questions about the Committee, our work and how we operate at the AGM on 17 November 2017.

Adam Walker
Chair of the Risk Management and Audit Committee

20 September 2017

Safety, Health and Environment Committee report

> "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."

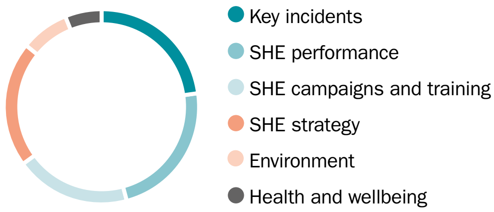
Nick Winser
Chair

SHE Committee members

- Nick Winser (Chair)
- Justin Atkinson
- Constance Baroudel
- Kirsty Bashforth

Amanda Mellor retired as a member of the Committee on 18 November 2016.

Allocation of time



Dear shareholder

I am pleased to present the Safety, Health and Environment Committee report, which provides a summary of the Committee's activities during the 2017 financial year.

The Group operates on several hundred sites at any one time, both throughout the UK and internationally; the Group's projects can be complex and are not without risk. As a Committee, we oversee the continuous improvement of the management of safety, health and environment (SHE) risks in the workplace.

I am therefore pleased to be able to report, overall, a strong SHE performance in 2017, with a significant reduction in the Group's reportable accident incidence rate (AIR) by 38%, as compared to the prior year, and good progress with respect to reducing the Group's energy use. Please see page 22 for details of progress made against the Group's strategic priority to operate a safe and sustainable business.

Role

The role of the Committee includes:

- ensuring that management develops and implements the Group's strategy with respect to SHE matters;
- encouraging management's commitment and 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 ensuring that management communicates the 'lessons learned' from those incidents across the Group; and
- monitoring and challenging management on the Group's performance against SHE targets.

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

Committee composition and meeting attendance

The names of the members of the Committee are set out above. 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 (Hugh Raven).

The Committee met formally four times during the year; details of attendance at these meetings are set out on page 65.

Committee performance evaluation

2017 – progress against 2016 evaluation

The 2016 Board evaluation identified:

- an increased focus on environmental matters;
- an increased focus on health and wellbeing; and
- the need to maximise the benefit of the visible leadership tours

as some of the key areas of focus for the Committee in the 2017 financial year. The 2017 Board evaluation process confirmed that good progress had been made in each of these areas and that, overall, the Committee's performance had been effective during the year.

2018 – principal areas of focus

Following the 2017 evaluation, the Committee's principal areas of focus for the 2018 financial year include:

- maintaining a focus on key strategic issues, whilst challenging management with respect to operational issues; and
- ensuring sufficient time is set aside to consider environmental and health and wellbeing matters.

Principal activities – 2017 financial year

A summary of the safety, health and environment matters considered by the Committee during the year is as follows:

Safety

Key incident reviews

At each meeting during the year, the Committee reviewed key safety incidents and received presentations on certain of those incidents from senior management. In addition, the Committee monitored the close-out of all actions arising from such incidents and challenged management to ensure the effective communication of any learning points across the Group.

Regulatory investigations

From time to time, the Health and Safety Executive (the HSE) will conduct investigations into incidents which occur on the Group's sites. Some of these investigations may 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. During the year, the Committee oversaw the management of the prosecution brought against the BFK joint venture site following a fatality at the Farringdon section of the Crossrail project in March 2014 and two other incidents at the Bond Street section in January 2015, which resulted in a fine of £1.065m for the joint venture. In addition, the Committee also monitored management's approach to the HSE's investigation into a fatality which took place in May 2014 at Lidgate and the court proceedings relating to a trench collapse at a site in Holbeach (which occurred in March 2012), which resulted in a £1.5m fine in December 2016.

SHE strategy

During the year, the Committee reviewed progress against the Group's SHE strategic business plan. Performance is measured 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, significant progress was made against these targets. See page 22 for further information.

SHE campaigns

A series of campaigns relating to topical SHE matters were run across the Group throughout the year. The Committee challenged management on the effectiveness of these campaigns, which included:

- a focus on the prevention of slips, trips and falls;
- a reduction in the number of buried services strikes; and
- a focus on key site safety matters, including identifying hazards, working around plant and promoting appropriate safety behaviours.

Visible leadership tour – HMS Belfast

'I came away realising how much there is to learn and how valuable these visits are for us as Non-Executive Directors to be able to keep in touch with the business beyond our board discussions.'

Kirsty Bashforth – Non-Executive Director

Innovation

The Board, and its committees, supports management's focus on innovation throughout the business. The Committee has challenged management to focus on the use of innovation to manage the safety risks relevant to the Group. During the year, the Committee oversaw:

- the launch of a central, Group-wide portal as a hub for safety risk management documents and advice; and
- the development of the 'Engage to Change' App, which provides employees with an efficient way to give feedback on SHE practices within the Group.

Visible leadership tours

All members of the Committee are required to conduct 'visible leadership tours' across the Group's sites during the year and to report on those visits at subsequent meetings. The Committee also monitored visits which were undertaken by senior management throughout the year. The tours are well-received by the business, informative for management and have a measurable positive effect on the Group's safety statistics.

Health and wellbeing

During the year, the Committee continued to monitor the Group's health and wellbeing programme, which aims to raise awareness of common health issues. The programme included a focus on mental health, blood pressure, heart awareness and diabetes and the use of a 'health kiosk' (which tested staff on core health issues and visited various offices and sites around the country).

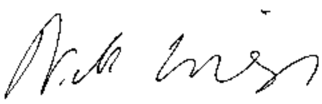
The Committee also oversaw management's strategic review of the provision of occupational health (OH) services within the Group, which resulted in the transfer of the provision of OH services to an external provider.

Environmental matters

The Group's environmental performance is measured against a set of KPIs, 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. The Committee also reviewed the statistics relating to the reporting of environmental incidents (for example, effluent leakages or spillages and noise or dust pollution) and challenged management to take appropriate action following such incidents. During the year, the Committee approved the 'Kier Energy Strategy – 30 by 30', which aims to reduce the Group's energy usage by 30% by 2030. Further details can be found on pages 30 to 33 (inclusive).

Conclusion

I will be available to answer any questions you may have about the Committee, our work and how we operate at the AGM on 17 November 2017.



Nick Winser
Chair of the Safety, Health and Environment Committee

20 September 2017

Relations with shareholders

Highlights

- A successful Capital Markets Day in June 2017, with a focus on the Property division
- Consultation with shareholders on the 2017 remuneration policy
- Meetings with shareholders on sustainability matters

For further information on how we engage with shareholders and other stakeholders, please turn to pages 30 to 33 (inclusive).

Introduction

The Board welcomes the opportunity to engage with shareholders and to understand their views on matters of importance to them.

The Chief Executive, Finance Director and other members of the Board meet regularly with institutional shareholders and analysts to discuss the performance of the Group and to understand their views about Kier.

The following table sets out details of the key meetings and engagement with shareholders during the year:

2016

September
- 2016 year-end results released
- UK investor roadshows

October
- Investor site visit to Mersey Gateway project

November
- Annual General Meeting
- Investor and analyst seminar, focusing on Kier Living

2017

January
- Trading update and subsequent discussions with analysts

March
- 2017 interim results released
- UK investor roadshows

May
- Commencement of shareholder consultation on executive remuneration

June
- Shareholder meetings to discuss Kier's strategy for a sustainable business
- Trading update
- Capital Markets Day and site visit to Reading Gateway, focusing on the Property division

September
- 2017 year-end results released
- UK investor roadshows

Capital Markets Day (June 2017) – analysts visit the Reading Gateway project.

Key engagement issues

- **Strategy** – the Chief Executive and the Finance Director met major shareholders following the preliminary announcement of the Group's 2016 results and the announcement of the Group's 2017 interim results to discuss a number of matters, including progress against the Group's strategy. Following these announcements, analysts' notes were circulated to the Board;
- **Governance** – the Chairman and the Senior Independent Director met major shareholders to discuss, amongst other matters, the Chairman's succession, remuneration and risk management. Following these meetings, feedback was provided to the Board;
- **Remuneration** – the Chair of the Remuneration Committee led the engagement with shareholders with respect to the Group's new remuneration policy and remuneration for the 2018 financial year; and
- **Sustainability** – in June 2017, we met a number of major shareholders to review our strategy for a sustainable business, demonstrating how this strategy will create value for Kier and its shareholders. Meetings with individual shareholders were held during the year to discuss sustainability matters.

Website – IR section

The investor relations section of the Company's website can be found at www.kier.co.uk/investor-relations. It provides information on the Company's financial calendar, dividends, annual general meetings and other areas of interest to shareholders. Copies of Annual Reports and investor presentations are available to view and download. Shareholders can also register to receive 'news alerts' relating to the Group's activities.

Annual general meetings

The Board uses the AGM as an opportunity to communicate with shareholders, who 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 each AGM to answer questions on the work of their committees.

The results of the voting at the 2016 AGM were:

		For	Against
	Resolution	Percentage of votes cast[1,2]	Percentage of votes cast[2]
1	Receive Annual Report and Accounts	99.90	0.10
2	Remuneration Report	89.99	10.01
3	Declare final dividend	99.88	0.12
4–14	Appointment of Directors	97.92-99.99	2.08-0.01
15	Appointment of auditor	99.98	0.02
16	Auditor's remuneration	99.99	0.01
17	Authority to allot shares	99.72	0.28
18	Disapply pre-emption rights (general)	98.68	1.32
19	Disapply pre-emption rights (acquisition)	95.30	4.70
20	Meetings on 14 days' notice	96.07	3.93

1 Includes those votes for which discretion was given to the Chairman.

2 Does not include votes withheld.

Annual statement of the Chair of the Remuneration Committee

"The new remuneration policy is aligned to Kier's Vision 2020 and will continue to incentivise management to drive the performance of the Group for the long-term benefit of shareholders."

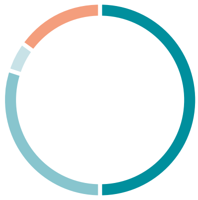
Constance Baroudel
Chair

Remuneration Committee members

Constance Baroudel (Chair)	
Justin Atkinson	Adam Walker
Kirsty Bashforth	Nick Winser
Philip Cox	

Amanda Mellor retired as the Chair of the Committee on 18 November 2016. Phil White retired as a member of the Committee on 31 August 2017.

Allocation of time



Dear shareholder

On behalf of the Board, I am pleased to present the Directors' Remuneration Report for 2017.

This Directors' Remuneration Report is divided into three principal sections:

- this annual statement, which provides the context for the Committee's decisions during the year and summarises the key points from the remainder of the report;
- the new remuneration policy; and
- the annual report on remuneration, which provides details of remuneration paid to the Board during the 2017 financial year.

Approach to remuneration at Kier

Our remuneration policy aims to:

- incentivise and reward the delivery of strategy and performance: over two-thirds of the Executive Directors' maximum remuneration opportunity is variable and relates to the Group's performance against its strategic objectives (as set out on pages 22 to 29 (inclusive));
- align Executive Directors' interests with those of shareholders: approximately half of the Executive Directors' maximum remuneration opportunity is satisfied in shares and the Executive Directors are encouraged to build up shareholdings in the Company of at least two years' base salary over a period of up to five years, promoting a culture of long-term stewardship; and
- attract and retain talent: the Committee considers practices in comparable businesses so as to ensure that remuneration at Kier remains competitive, enabling it to attract and retain talented individuals, but without paying more than is necessary.

Remuneration framework

There are three elements to the framework for the Executive Directors' remuneration:

- fixed element: comprises base salary, taxable benefits (private health insurance and a company car or car allowance) and a pension;
- short-term element: an annual bonus, which incentivises and rewards the delivery of a balanced selection of financial and non-financial targets in a financial year, with payments being satisfied in cash (2/3), which will now be subject to clawback, and shares (1/3), which are deferred for three years; and
- long-term element: the LTIP incentivises financial performance over a three-year period, promoting long-term sustainable value creation for shareholders. Vested shares will now be subject to a two-year holding period.

New remuneration policy

The Committee consulted with major shareholders in relation to the proposed new remuneration policy, which is set out on pages 86 to 93 (inclusive). The policy is subject to shareholder approval every three years and, therefore, will be voted on at the Annual General Meeting on 17 November 2017. The Committee considers that the current remuneration policy has served Kier well over the last three years; shareholders will, therefore, note that the changes to the existing policy are generally of an evolutionary nature, with the Committee having taken into account recent developments in corporate governance and best practice. The changes to the 2014 policy are set out in the future policy table on pages 86 to 89 (inclusive).

Implementation of the new remuneration policy in 2018

Details of the implementation of the new policy in 2018 are set out in 'Remuneration at a glance' on page 84. The Committee consulted with shareholders with respect to both the new policy and its implementation in 2018. A summary of the Executive Directors' remuneration in 2018 is:

Base salaries

The Executive Directors (other than the Chief Executive) received a 3% increase in base salary with effect from 1 July 2017, in line with the average increases awarded to employees. The Chief Executive received a 5% increase in base salary, in line with the increases awarded to high performers and reflecting his progression in the role, leading a business of increasing scale and complexity, and the Group's good performance in challenging market conditions. The Committee is satisfied that the Executive Directors' base salaries are in line with the median of those paid at peer group companies.

When setting salaries, the Committee takes into account a number of factors, including the nature of the role (and its evolution), an individual's performance, the external environment (including shareholder feedback), an individual's total remuneration and the average salary increases awarded to the Group's employees (and how these are distributed).

Annual bonus

The maximum bonus opportunity for the Chief Executive will be 125%, with 115% for the other Executive Directors (an increase from 100% in 2017). The Committee considers these opportunities to be in line with those at peer group companies.

So that the increased bonus opportunities further incentivise the delivery of Vision 2020, 'on-target' bonus payments (as a percentage of salary) for the Executive Directors (other than the Chief Executive) will remain unchanged from those which applied in the 2017 financial year. Reflecting his higher bonus opportunity, the 'on target' payment for the Chief Executive (as a percentage of salary) will increase by 6%.

The bonus targets will relate to: profit before tax (50%), the Group's year-end net debt position (30%), safety targets (10%) and personal objectives (10%).

When assessing the profit before tax element of the bonus, the Committee will take into account any non-underlying items incurred in the year. When assessing the net debt element, the Committee will take into account its key target of average month-end net debt being less than the average month-end capital invested in the Property and Residential divisions.

The safety element of the bonus will require a reduction in the Group's AAIR during the year. The Committee will also take into account any material incidents which may occur during the year.

The personal objectives element of the bonus will relate to matters including customer satisfaction, operational efficiency, risk management, innovation and employee engagement.

Further details of the specific targets, together with performance against them, will be included in the 2018 Annual Report.

LTIP awards

The Executive Directors will continue to receive an award of 150% of their base salary in 2018 (the same level as in 2017). The performance conditions will again relate to EPS (50%), TSR (25%) and net debt : EBITDA (25%), over the three-year period ending 30 June 2020.

There will be three changes to the performance conditions for the 2017 awards, as follows:

- the use of a bespoke group of listed companies against which to compare the Group's TSR performance, as set out on page 100. These companies were selected because they compete with the Group across the range of services that it provides;
- as a result of an increased correlation with the new comparator group, a reduction in the full-vesting requirement for the TSR element from a 12% to a 10% per annum outperformance. The Committee considers that the revised requirement is of equivalent difficulty to the existing performance condition, requiring upper quartile performance; and
- a reduction in the full-vesting requirement for the EPS performance condition from 15% to 13% per annum growth, which remains in line with the median full-vesting requirement within the FTSE 250. The Committee considers that the revised EPS target remains stretching, when assessed against a number of internal and external reference points.

Other changes

In 2018, the Committee will introduce:

- a two-year holding period for vested LTIP shares; and
- 'recovery' provisions in both the holding period and the cash element of the annual bonus (alongside existing malus provisions).

Remuneration outcomes in 2017

Annual bonus

The 2017 bonus targets related to: profit before tax (50%), the Group's year-end net debt position (40%) and health and safety targets (10%). Although the Group's profit before tax (£126.1m) exceeded the threshold for a bonus payment, the Committee took into account the level of non-underlying items incurred during the year and decided that there would be no payment with respect to this element of the bonus.

The Group's year-end net debt of £110m represented a strong performance. So as to ensure that the year-end net debt figure was representative of the Group's overall net debt position, the Committee took into account the Group's average month-end net debt position relative to the average month-end aggregate capital invested in the Property and Residential divisions and, having done so, was satisfied that a 40% payment for this element of the bonus was appropriate.

During the year, the Group's UK AAIR reduced by 16%, resulting in a 4% to 8% payment for the Executive Directors (depending on the number of site visits undertaken).

LTIPs

The performance period for the 2015 LTIP awards ended on 30 June 2017. These awards will vest as to 29%. Please see page 95 for further information.

Remuneration across the Group

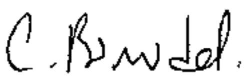
In determining the Executive Directors' remuneration, the Committee takes into account general trends in remuneration across the Group as a whole. The Committee seeks to ensure that the underlying principles which support its decisions on the Executive Directors' remuneration are consistent with those which relate to decisions on the pay of the wider workforce. In practice, the Executive Directors' remuneration is more heavily weighted towards variable pay (and, therefore, is linked to the Group's performance) than the pay of other employees (which is principally driven by market comparators and individual experience and performance).

Conclusion

The Committee recognises that executive remuneration in general continues to be an area of focus for shareholders and other stakeholders. When setting the Executive Directors' 2018 remuneration, the Committee took into account shareholders' feedback and is satisfied that, overall, the link between pay and performance remains strong, the interests of the Executive Directors and shareholders have been further aligned (for example, via the new holding period for vested LTIP shares) and the Executive Directors' remuneration remains competitive.

The Committee will continue to monitor developments in executive remuneration and engage with shareholders to ensure that Kier's leadership team is appropriately incentivised to continue to deliver growth and the Group's long-term strategy.

I will be available to answer any questions you may have about the Committee, our work and how we operate at the AGM on 17 November 2017.



Constance Baroudel
Chair of the Remuneration Committee

20 September 2017

Remuneration at a glance

The tables and charts below:

- smmarise the principal elements of the Executive Directors' remuneration in 2017;
- provide an illustration of the application of the new remuneration policy in 2018; and
- summarise how key elements of the new remuneration policy (as set out on pages 86 to 93 (inclusive)) will be implemented in 2018 (subject to its approval at the AGM).

Principal elements of the Executive Directors' remuneration in 2017

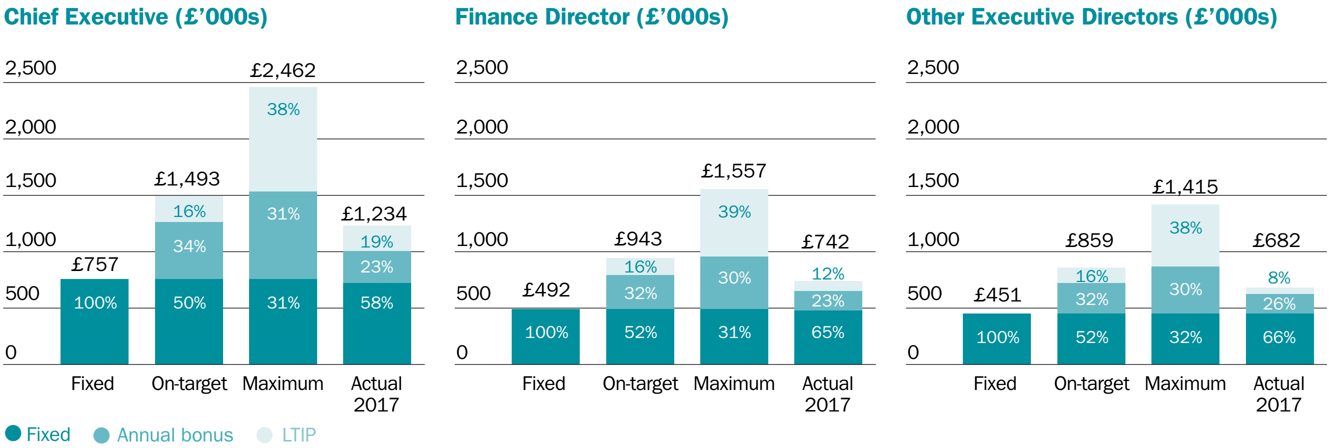
Element[1]	Chief Executive	Finance Director	Other Executive Directors
Base salary	£590,000	£390,000	£364,000
2017 bonus			
› Total bonus	£283,200	£171,600	£174,720
› % of salary/maximum opportunity	48%	44%	48%
› Cash amount	£188,800	£114,400	£116,480
› Amount satisfied in shares	£94,400	£57,200	£58,240
2015 LTIP award vesting			
› % of maximum opportunity	29%	29%	29%
› Number of shares vested	17,992	7,155	3,562 – 4,987
› Face value of vested shares[2]	£229,038	£91,083	£45,344 – £63,485

[1] All amounts expressed before deductions for income tax and national insurance contributions.

[2] Using the Company's average share price for the three-month period ended 30 June 2017 of £12.73.

Illustration of application of remuneration policy in 2018

The following charts illustrate the remuneration that the Executive Directors may receive under different performance scenarios for the year ending 30 June 2018, together with the actual amounts received in the year ended 30 June 2017:



The scenarios set out in the above charts reflect or assume the following:

- 'Fixed' remuneration comprises:
  - base salary from 1 July 2017;
  - the estimated value of taxable benefits to be provided in 2018 in line with the remuneration policy (based on the actual value of such benefits provided in 2017, using an average (mean) for the other Executive Directors); and
  - a pension contribution/cash allowance equal to 20% of salary.
- The 'on-target' remuneration assumes an annual bonus payment of 65% of the maximum opportunity and a 'threshold' LTIP vesting (25% of the maximum opportunity).
- The 'maximum' remuneration assumes maximum performance is achieved and therefore awards under the annual bonus and the LTIP pay out or vest at their maximum levels.
- No share price appreciation is assumed for LTIP awards.
- 'Actual 2017' applies the figures set out in the table on page 94, using an average (mean) total single figure and 2014 LTIP award value for the other Executive Directors.

Implementation of remuneration policy in 2018

Element	Chief Executive	Finance Director	Other Executive Directors
Base salary	£620,000 (+5%)	£401,700 (+3%)	£375,000 (+3%)
Annual bonus	› Maximum: 125% of salary › On-target: 81% of salary	› Maximum: 115% of salary › On-target: 75% of salary	
Pension	20% of salary		
Annual bonus targets[1]	› Financial (80%): profit before tax (50%) and year-end cash/net debt (30%) › Non-financial (20%): health and safety (10%) and personal objectives (10%)		
Deferred shares	One-third of any net bonus payment to be satisfied by an allocation of shares (legal ownership deferred for three years)		
LTIP	150% of base salary		
LTIP performance conditions	Awards will be subject to the Group's performance over a three-year period ending 30 June 2020: › 50% EPS: cumulative earnings per share (EPS) growth over the performance period › 25% TSR: total shareholder return (TSR) when ranked relative to a bespoke list of comparator companies (see page 100) › 25% net debt : EBITDA: performance measured by taking the average (mean) of the position as at 30 June 2018, 2019 and 2020		
Holding period	Any vested LTIP shares must be held for two years after vesting (after payment of tax)		
Shareholding guidelines	200% of base salary		
Malus and clawback	› Malus will apply to the deferred shares (in the three-year deferral period) and LTIP awards (prior to vesting) › Clawback will apply to any cash bonuses paid and to the two-year post-vesting holding period for the LTIP		

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Directors' remuneration policy

Introduction

The Company's current remuneration policy, as set out in the 2014 Annual Report, received shareholder approval at the AGM in November 2014. The Company is therefore required to put a new remuneration policy to shareholders at the AGM on 17 November 2017. The new remuneration policy, which is set out on pages 86 to 93 (inclusive), will take effect from the conclusion of the AGM (subject to shareholder approval). The Committee is satisfied that the new remuneration policy is in the best interests of shareholders and retains discretion to make non-material changes to the policy without reverting to shareholders.

Compliance statement

This Directors' Remuneration 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 (April 2016 edition).

Future policy table

The Group's policy for each element of an Executive Director's remuneration, together with an indication of any changes to the 2014 remuneration policy, is set out in the table below:

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 a number of factors, including 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. Business-related expenses which are deemed to be taxable form part of the benefits provided. 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 schemes To encourage ownership of the Company's shares	One or more HMRC-approved schemes 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.
Share Incentive Plan 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 trustees can reinvest cash dividends to acquire further shares on behalf of participants.

Opportunity	Performance measures	Change to 2014 policy
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.	None.
Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.	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 a scheme. Typically, employees are invited to participate on an annual basis.	None.	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.	None.

Future policy table continued

Element and link to strategy	**Operation**
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. Clawback will apply to any cash bonus paid in respect of the financial year ending 30 June 2018 and future years. One-third of any net payment is satisfied by an allocation of Kier Group plc shares, which is deferred for three years (subject to early release for 'good leavers' and upon a takeover) and is subject to a malus provision. Dividend payments accrue on deferred bonus shares over the deferral period. See 'Malus and clawback' on page 90.
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. A two-year post-vesting holding period will apply to awards granted in 2017 and future years. Dividend equivalents (in respect of vested shares) will apply to those awards granted after shareholder approval of this policy and, subject to approval of (i) this policy and (ii) any necessary changes to the LTIP rules, to those awards granted shortly prior to the 2017 AGM. A malus provision applies to awards pre-vesting and a clawback provision applies to the post-vesting holding period. See 'Malus and clawback' on page 90. If an event or series of events occurs as a result of which the Committee deems it fair and reasonable that the performance conditions should be modified, the Committee has discretion during the vesting period to 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 modifying performance conditions will be disclosed in the relevant Annual Report. The awards are subject to the terms of the LTIP and the Committee may adjust or amend the awards only in accordance with the LTIP rules.

Opportunity	Performance measures	Change to 2014 policy
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.	None.
The maximum potential bonus for the financial year ending 30 June 2018 is 125% of base salary for the Chief Executive and 115% of base salary for other Executive Directors. '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 ofdifficulty (or 'stretch') in achieving it.	The Committee has discretion to determine the performance 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 and safety 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.	Maximum 2018 opportunities increased from 100% of base salary (see 'Opportunity'), with increased opportunities payable upon the Group exceeding 'on-target' performance, thereby further incentivising delivery of the Group's strategy. Clawback introduced to enable the Committee to recover bonus in certain circumstances.
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 2018 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 against a bespoke group of listed companies which reflects the Group's business mix and competition for capital. The TSR comparators for the awards made in the financial year ending 30 June 2018 are listed on page 100. The Committee retains discretion to change or supplement EPS, TSR and net debt : EBITDA as performance measures with alternative or 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.	Introduction of a two-year post-vesting holding period to encourage long-term performance and a culture of long-term stewardship and further align the Executive Directors' interests with those of shareholders. Dividend equivalents introduced to align with market practice. The Committee's ability to waive performance conditions has been removed, in line with market practice.

Payments from outstanding awards

The Company will honour any commitment entered into, and the Executive Directors will be eligible to receive payment from any award or arrangement made, (i) before this policy came into effect, provided that the terms of the commitment or payment are consistent with the 2014 policy or preceded that policy, or (ii) at a time when the relevant individual was not a Director and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director. For these purposes, 'payment' includes the satisfaction of awards of variable remuneration and, in relation to awards of shares, upon the terms which were agreed when the award was granted.

Notes to the future policy table

Malus and clawback

Allocations of shares in part satisfaction of annual bonus payments and unvested LTIP awards will be subject to a 'malus' provision during the deferral period and the period prior to vesting, respectively.

This allows the Committee to determine, in its absolute discretion, that (i) the level of an unvested LTIP award (or part of an award) is reduced (including to nil) and/or (ii) the number of deferred shares 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.

Clawback will be introduced for (i) the cash element of the annual bonus from 2018 (and may be applied up to three years following payment of the bonus) and (ii) the two-year post-vesting holding period which will apply to LTIP awards granted in 2017 and future years. The Committee expects that the circumstances in which clawback will apply will be the same (or substantially the same) as for malus. The clawback may be effected by a reduction in: the number of deferred bonus shares previously allocated, the number of vested or unvested LTIP awards or salary or by repayment from an individual's own funds or by any combination of these.

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 relative to a bespoke peer group which reflects the Group's mix of business. Cash (and, therefore, net debt) is an important financial measure in the contracting sector and supports the delivery of the Group's strategy. 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.

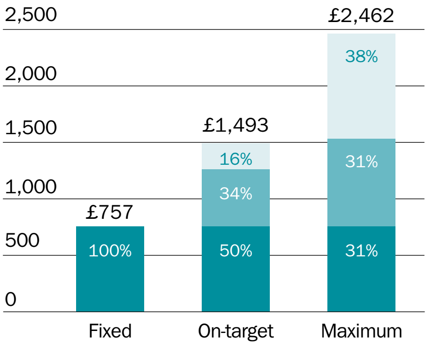
Approach to setting the remuneration of other employees

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 to 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 350 individuals) are also eligible to participate in a long-term share incentive plan under which awards will normally vest after three years, subject to continued employment. Award sizes vary according to seniority and responsibility.

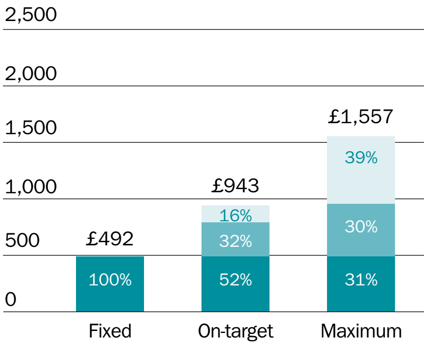
Illustration of application of remuneration policy

The charts below set out the minimum (i.e. ‘fixed’) remuneration receivable by each Executive Director as at the date of this Annual Report, as well as the potential remuneration for ‘on-target’ and ‘maximum’ performance, as a result of the application of the remuneration policy set out above in the year ending 30 June 2018.

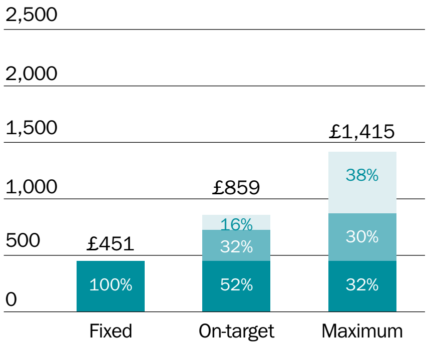
Chief Executive (£’000s)



Finance Director (£’000s)



Other Executive Directors (£’000s)



● Fixed ● Annual bonus ● LTIP

‘Fixed’ remuneration comprises base salary, taxable benefits and pension contribution/cash allowance. The ‘on-target’ remuneration assumes an annual bonus payment of 65% of the maximum opportunity and a ‘threshold’ LTIP vesting (25% of the maximum opportunity). The ‘maximum’ remuneration assumes maximum performance is achieved and therefore awards under the annual bonus pay out at their maximum levels of 125% (Chief Executive) and 115% (other Executive Directors) of salary, respectively, and LTIP awards vest at their maximum level. No share price appreciation is assumed for LTIP awards.

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, the 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 schemes	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.
‘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 recruitment. 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 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.

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 shares would be released.
Other entitlements on termination	There is no contractual entitlement to notice, or any other payments in respect of the period after cessation of employment, if the individual is summarily dismissed. 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. Please see 'Payments for loss of office' below for a summary of other entitlements which may be due upon termination (and which relate to remuneration).

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. Clawback will continue to apply to the cash element of any annual bonus payment from 2018 (until the end of the three-year clawback period). Deferred shares allocated in part satisfaction of annual bonuses may be released upon cessation of employment if an individual is a 'good leaver'. Otherwise, they will be released at the end of the three-year holding period (unless they are forfeited in the case of gross misconduct and/or circumstances justifying summary dismissal).
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. Vested shares relating to awards made from 2017 will be subject to the two-year post-vesting holding period, irrespective of the date on which they vest. 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 schemes	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/her 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 and 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 holding period for vested LTIP awards will cease. Clawback will no longer apply to any vested LTIP awards or prior payments of cash bonuses. The rules of the SIP and the SAYE schemes 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 PILON 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.

The Committee takes into account the overall pay and employment conditions of employees within the Group when making decisions on the Executive Directors' remuneration. In addition, the Committee is provided with information about the proposed annual Group-wide pay review when setting the Executive Directors' salaries and is made aware of the approximate outcomes of annual bonuses within the wider workforce.

Consideration of shareholders' 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 Chair of the Committee consulted with a number of significant shareholders during the year and their views have been taken into account when preparing the remuneration policy.

The Committee will keep the remuneration policy under regular review so as to ensure that it continues to relate to the Company's long-term strategy and aligns the interests of the Executive Directors with those of the shareholders. In addition, the Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

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' remuneration is as follows:

Element and link to strategy	Operation	Opportunity	Performance measures	Change to 2014 policy
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.	None.
Benefits To reimburse Non-Executive Directors for expenses.	Reasonable and necessary expenses are reimbursed, together with any tax due on them.	Expenses (including, without limitation, travel and subsistence) incurred in connection with Kier business.	Not applicable.	Included for clarification purposes.

Recruiting Non-Executive Directors

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

Non-Executive Director letters of appointment

The Non-Executive Directors do not have service contracts but have entered into letters of appointment with the Company. The letters of appointment do not include any provisions for the payment of pre-determined compensation upon termination of appointment.

Annual report on remuneration

Introduction

This section of the report sets out the annual report on remuneration for the 2017 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, the pension entitlements set out on this page, the incentive awards made during the 2017 financial year set out on page 96, the payments for loss of office set out on page 96, the payments to past Directors set out on page 97 and the statement of Directors' shareholdings and share interests set out on page 97.

Directors' remuneration for the 2017 financial year

The following table provides details of the Directors' remuneration for the 2017 financial year, together with their remuneration for the 2016 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[6] (£000)		Total (£000)	
	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017	2015/2016	2016/2017[2]	2015/2016[3]	2016/2017[4]	2015/2016[5]	2016/2017	2015/2016	2016/2017	2015/2016
Executive Directors														
Nigel Brook	364	350	16	14	175	315	45	45	1	1	73	70	674	795
Bev Dew	390	375	10	12	172	338	91	–	1	1	78	75	742	801
Haydn Mursell	590	530	13	13	283	477	229	184	1	1	118	106	1,234	1,311
Nigel Turner	364	350	13	13	175	315	57	53	1	1	73	70	683	802
Claudio Veritiero	364	350	13	12	175	315	63	62	1	1	73	70	689	810
Non-Executive Directors														
Justin Atkinson	60	40	–	–	–	–	–	–	–	–	–	–	60	40
Constance Baroudel[7]	56	–	–	–	–	–	–	–	–	–	–	–	56	–
Kirsty Bashforth	50	50	–	–	–	–	–	–	–	–	–	–	50	50
Amanda Mellor[8]	25	60	–	–	–	–	–	–	–	–	–	–	25	60
Adam Walker	60	30	–	–	–	–	–	–	–	–	–	–	60	30
Phil White	188	188	–	–	–	–	–	–	–	–	–	–	188	188
Nick Winser	60	60	–	–	–	–	–	–	–	–	–	–	60	60
Total	2,571	2,383	65	64	980	1,760	485	344	5	5	415	391	4,521	4,947

1 Comprise private health insurance and a company car or a car allowance. In addition to these amounts, the Board and members of senior management have access to a driver, whose total annual cost to the Group is approximately £50,000 of which the Chief Executive's home-to-work usage in each of 2016 and 2017 was approximately 20%.

2 The award granted in October 2014 will vest as to 29%. The value is calculated using the Company's average share price for the three-month period ended 30 June 2017 of £12.73.

3 Relates to the awards granted in October 2013, which vested in October 2016. The amounts stated have been revised, as compared to those stated in the 2016 Annual Report, to reflect the Company's share price on the date of vesting of £13.60.

4 The value of the matching shares purchased during the 2017 financial year under the Share Incentive Plan (the SIP), using an average share price for matching shares purchased during the 2017 financial year of £13.08.

5 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.

6 Comprises the payment of employer pension contributions and/or a cash allowance.

7 Constance Baroudel was appointed to the Board with effect from 1 July 2016 and as Chair of the Remuneration Committee with effect from 18 November 2016.

8 Amanda Mellor retired from the Board with effect from 18 November 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, with the balance being 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 2017 financial year were:

Director	Pension contribution	Cash allowance	Total
Nigel Brook	–	£72,800	£72,800
Bev Dew	£32,500	£45,500	£78,000
Haydn Mursell	–	£118,000	£118,000
Nigel Turner	£30,000	£42,800	£72,800
Claudio Veritiero	£2,500	£70,300	£72,800

Annual bonus – 2017 financial year

The Executive Directors' bonuses in respect of the 2017 financial year (in each case before deductions for income tax and national insurance contributions) are as follows:

				Performance level				Performance achieved[1]				
	Weighting	Measure		'Threshold'	'On target'	'Stretch'	Actual	Nigel Brook	Bev Dew	Haydn Mursell	Nigel Turner	Claudio Veritiero
Financial	90%	Profit before tax	Target	£118m	£131m	£137m	£126.1m[2]	–	–	–	–	–
			Pay-out[1]	0%	40%	50%	–					
		Year-end cash/ net debt	Target	£(186)m	£(177)m	£(168)m	£(110)m[3]	40%	40%	40%	40%	40%
			Pay-out[1]	0%	30%	40%	40%					
Non-financial	10%	Health and safety		See note 4 below				8%	4%	8%	8%	8%
Total (%)								48%	44%	48%	48%	48%
Total (£)								£174,720	£171,600	£283,200	£174,720	£174,720

1 As a percentage of maximum opportunity (i.e. 100% of base salary).

2 The Committee took into account the level of non-underlying items incurred during the year and decided that there would be no payment with respect to this element of the bonus.

3 The Committee also took into account the Group's average month-end net debt position relative to the average month-end aggregate capital invested in the Property and Residential divisions.

4 The target relates to a reduction in the Group's average UK AAIR from 1 January to 30 June 2017, as compared with the equivalent period in 2016, with the maximum opportunity requiring a 20% reduction. There was a 16% reduction, resulting in an 8% payment. The Committee decided to reduce the amount payable to Bev Dew due to the required number of visible leaderships tours during June to September 2016 not having been undertaken.

One-third of the bonus awarded will be satisfied by an allocation of shares (deferred for three years), which will be subject to 'malus'.

LTIP awards – performance period ended 30 June 2017

The three-year performance period of the LTIP awards granted in the 2015 financial year ended on 30 June 2017. Performance against the performance conditions of these awards was as follows:

Performance condition	Weighting	Targets	Actual performance	Level of vesting[1]
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 these points	9.4% p.a.[2]	58%
TSR outperformance[3]	50%	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	-8.3% p.a.	–
Total				29%

1 Expressed as a percentage of the maximum opportunity.

2 Adjusted to reflect the sale of Mouchel Consulting in October 2016.

3 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).

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[2]	Value[1]
Nigel Brook	12,284	3,562	£45,344
Bev Dew	24,674	7,155	£91,083
Haydn Mursell	62,042	17,992	£229,038
Nigel Turner	15,479	4,488	£57,132
Claudio Veritiero	17,199	4,987	£63,485

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 2017 of £12.73. The values stated are before deductions for income tax and national insurance contributions.

2 Vesting date for the awards will be 22 October 2017, save in relation to the award granted to Bev Dew, for which the vesting date will be 8 May 2018.

Incentive awards made during the 2017 financial year

The following incentive awards were made to each of the Executive Directors during the 2017 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 2017	Nigel Brook	£545,996	25% of face value	30 June 2019	21 October 2019	n/a	Awards are based 50% on three-year cumulative EPS growth, 25% on relative TSR performance and 25% on net debt: EBITDA
		Bev Dew	£584,998					
		Haydn Mursell	£884,987					
		Nigel Turner	£545,996					
		Claudio Veritiero	£545,996					
Deferred shares	1/3 of the net bonus for the year ended 30 June 2016	Nigel Brook	£55,650	n/a	n/a	29 September 2019	n/a	Continued service condition (subject to malus)
		Bev Dew	£59,620					
		Haydn Mursell	£84,308					
		Nigel Turner	£55,650					
		Claudio Veritiero	£55,650					
SIP	Matching shares purchased in accordance with the SIP rules	Nigel Brook	£903	n/a	n/a	n/a	n/a	Continued service condition
		Bev Dew	£903					
		Haydn Mursell	£746					
		Nigel Turner	£903					
		Claudio Veritiero	£916					

[1] For the LTIP awards, 'face value' is calculated using the market price of a share in the capital of the Company on 20 October 2016 of £13.68. 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 2016 of £13.55. For the SIP, 'face value' is calculated using the total number of shares bought on behalf of the relevant individuals during the 2017 financial year and an average share price for matching share purchases during the year of £13.08.

The performance conditions (and respective weightings) and targets for the LTIP awards which were 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 the grant date (21 October 2019).

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]	25%	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
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) of the position as at 30 June 2017, 2018 and 2019.

Payments for loss of office

No payments were made for loss of office during the 2017 financial year.

Payments to past Directors

Steve Bowcott's employment with the Group ceased on 30 April 2015. The Committee agreed that the LTIP award granted to Steve in October 2014 would be permitted to vest, subject to the satisfaction of its performance conditions and time pro rating up to 30 April 2015. Steve will therefore receive 4,166 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 2017 of £12.73, the value of such shares is £53,033. No other payments were made to Steve Bowcott or any other past Directors during the 2017 financial year.

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 2017, 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 2017 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
Constance Baroudel[7]	–	–	–	–	–	–	n/a	n/a	n/a
Kirsty Bashforth	2,019	–	–	–	–	–	n/a	n/a	n/a
Nigel Brook	14,693	7,311	89,816	201	–	1,559	200	74.1	No
Bev Dew	1,433	6,631	107,745	148	–	1,569	200	25.3	No
Amanda Mellor[8]	1,492	–	–	–	–	–	n/a	n/a	n/a
Haydn Mursell	49,707	14,926	183,729	168	–	–	200	134.3	No
Nigel Turner	27,741	8,746	93,011	189	–	784	200	122.9	No
Claudio Veritiero	12,293	7,840	94,731	202	–	1,554	200	67.8	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 2014 under the SIP – see 'Share Incentive Plan' on page 98).

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 2014 under the SIP.

5 Comprising options under the SAYE schemes. See 'Save As You Earn schemes' on page 99.

6 Calculated based on (i) shares owned outright by the Director or his/her connected persons and (ii) deferred shares allocated in connection with annual bonuses, using the market price of a share in the capital of the Company on 30 June 2017 of £12.26 and gross base salaries for the year ended 30 June 2017.

7 Constance Baroudel was appointed to the Board on 1 July 2016.

8 The table refers to the number of shares owned by Amanda Mellor at the date of her retirement from the Board (18 November 2016).

Since 30 June 2017, the Executive Directors have acquired beneficial interests in ordinary shares in the capital of the Company under the SIP, as referred to on page 98.

Deferred shares

Those persons who, during the 2017 financial year, served as a Director beneficially owned, at 30 June 2017, the following numbers of shares in the capital of the Company as a result of awards of deferred shares made (in part satisfaction of annual bonus payments) in each of the years indicated:

Director	**2015 award**	**2016 award**	**2017 award**	**Cumulative total 30 June 2017**
Nigel Brook	867	2,337	4,107	7,311
Bev Dew	–	2,231	4,400	6,631
Haydn Mursell	2,693	6,011	6,222	14,926
Nigel Turner	1,498	3,141	4,107	8,746
Claudio Veritiero	943	2,790	4,107	7,840
Date of award	29 September 2014	29 September 2015	29 September 2016	–
Share price used for award[1]	1,681 pence	1,364 pence	1,355 pence	–
End of holding period	29 September 2017	29 September 2018	29 September 2019	–

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 26 September 2014, 28 September 2015 and 28 September 2016, respectively.

LTIP awards

Those persons who, during the year ended 30 June 2017, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2017:

Director	2015 award	2016 award	2017 award	Cumulative total 30 June 2016	Cumulative total 30 June 2017
Nigel Brook	12,284	37,620	39,912	59,653	89,816
Bev Dew	24,674	40,308	42,763	64,982	107,745
Haydn Mursell	62,042	56,995	64,692	158,828	183,729
Nigel Turner	15,479	37,620	39,912	64,495	93,011
Claudio Veritiero	17,199	37,620	39,912	68,257	94,731
Date of award	22 October 2014[1]	22 October 2015	21 October 2016	–	–
Share price used for award[2]	1,528 pence[1]	1,396 pence	1,368 pence	–	–
End of performance period	30 June 2017	30 June 2018	30 June 2019	–	–

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 2015 and 2016 awards are set out in the Annual Reports in respect of the year in which the awards were made. The performance conditions for the 2017 award are set out on page 96.

Share Incentive Plan

Those persons who, during the year ended 30 June 2017, served as a Director beneficially owned the following numbers of shares as a result of purchases under the SIP at 30 June 2017:

Director	Unrestricted shares	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Cumulative total 30 June 2017
Nigel Brook	556	671	186	201	134	1,748
Bev Dew	–	296	21	148	–	465
Haydn Mursell	362	602	150	168	133	1,415
Nigel Turner	2,248	595	425	189	108	3,565
Claudio Veritiero	194	671	131	202	134	1,332

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 2017 financial year' on page 96.

At 20 September 2017, 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 2017: Nigel Brook – 38 shares, Bev Dew – 37 shares, Haydn Mursell – 32 shares, Nigel Turner – 36 shares and Claudio Veritiero – 36 shares. 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 2017.

Save As You Earn schemes

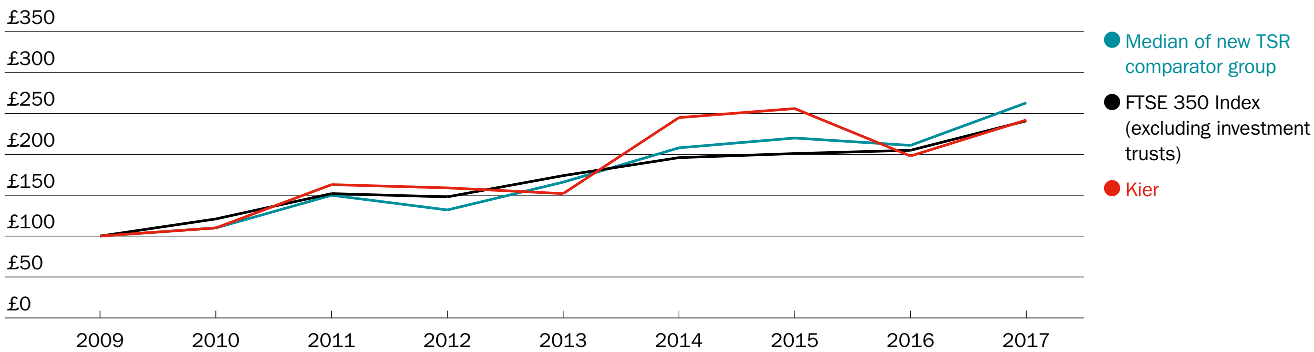
Those persons who, during the 2017 financial year, served as a Director had the following options under the Kier Group plc 2006 Sharesave Scheme and/or the Kier Group plc 2016 Sharesave Scheme at 30 June 2017:

Director	Date granted	Maximum number of shares receivable at 1 July 2016	Awarded during the year	Exercise during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2017[1]	Exercise price	Exercise period
Nigel Brook	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	30 October 2015	784	–	–	–	784	1,147 pence	1 December 2018 – 31 May 2019
Claudio Veritiero	3 May 2013	–	–	1,072	–	–	839 pence	1 July 2016 – 31 December 2016
	31 October 2014	775	–	–	–	775	1,159 pence	1 December 2017 – 31 May 2018
	8 November 2016	–	779	–	–	779	1,155 pence	1 December 2019 – 31 May 2020

[1] Assumes that each Director continues to save at the current rate(s) until the commencement of the relevant exercise period.

Total shareholder return

The graph below shows the value, at 30 June 2017, of £100 invested in shares in the capital of the Company on 30 June 2009, compared with the value of £100 invested in (i) an index comprising those companies selected as the comparator group for the 2017 LTIP award (see page 100) and (ii) the FTSE 350 (excluding investment trusts). The LTIP comparator group was chosen because it comprises companies with which the Group competes across the range of services that it provides and the FTSE 350 was chosen to illustrate the Group's performance against a broad equity market index of the UK's leading companies. The other points plotted are the values at 30 June during the eight-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:

Chief Executive	Year	Chief Executive single figure of remuneration (£000)[1]	Annual bonus payout against maximum opportunity (%)	LTIP vesting against maximum opportunity (%)
John Dodds/Paul Sheffield	2010	£938[2]	51%	0%
Paul Sheffield	2011	£753	69%	0%
	2012	£1,273	75%	100%
	2013	£987	48.8%	31.2%
	2014	£1,099	67.9%	32.7%
Haydn Mursell	2015	£1,079	91.9%	0%
	2016	£1,311	90%	34%
	2017	£1,234	48%	29%

[1] All figures are rounded to the nearest £1,000.

[2] Comprising £700,000 for John Dodds and £238,000 for Paul Sheffield (as Chief Executive). Mr. Dodds retired from the Board on 31 March 2010 and, during the 2010 financial year, was also paid £387,000 in respect of the remainder of his notice period under his service agreement.

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 2017 financial year, as compared to the 2016 financial year, together with the approximate comparative average figures for those employees who were 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) is considered to be the most appropriate group for comparison purposes, as their remuneration is controlled by the Group and is subject to 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%	4.6%
Taxable benefits	–	1.4%
Annual bonus	-40.9%	2.4%

Relative importance of spend on pay

The graph below shows the percentage changes in the total employee remuneration and dividend paid between the 2016 and 2017 financial years:

Total employee remuneration (£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 2017 consolidated financial statements.

The dividend figures in the chart comprise the dividends paid in the 2016 and 2017 financial years (as stated in note 10 to the 2017 consolidated financial statements), being, respectively, (i) the final dividend for the 2015 financial year and the interim dividend for the 2016 financial year and (ii) the final dividend for the 2016 financial year and the interim dividend for the 2017 financial year.

Implementation of the remuneration policy in 2018

Executive Directors' base salary

The base salaries of the Executive Directors are, with effect from 1 July 2017, as follows:

Director	From 1 July 2016	From 1 July 2017	Percentage increase
Nigel Brook	£364,000	£375,000	3.0%
Bev Dew	£390,000	£401,700	3.0%
Haydn Mursell	£590,000	£620,000	5.0%
Nigel Turner	£364,000	£375,000	3.0%
Claudio Veritiero	£364,000	£375,000	3.0%

Annual bonus

In the 2018 financial year, the maximum annual bonus opportunity for the Chief Executive will be 125% of base salary and 115% of base salary for all other Executive Directors, of which a maximum of 50% will relate to profit performance, a maximum of 30% to cash/net debt performance, 10% to health and safety targets and 10% to personal objectives. These objectives will relate to matters including customer satisfaction, operational efficiency, risk management, innovation and employee engagement. 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 by an allocation of shares, deferred for three years. Clawback provisions will apply for a three-year period following any bonus payment.

LTIP awards

In the 2018 financial year, the Executive Directors will be granted LTIP awards of 150% of base salary. The performance conditions (and respective weightings) and targets for these LTIP awards will be the same as for the awards granted during the 2017 financial year, except for (i) the changes to the full-vesting requirements for the EPS and TSR elements of the award described on page 96 and (ii) the comparator group for TSR purposes, which will be:

Balfour Beatty	Galliford Try	Mears	Morgan Sindall
Carillion	Henry Boot	Mitie	Renew Holdings
Costain	Interserve	MJ Gleeson	SEGRO

The Committee selected these companies because it considers that, together, they are the companies with which the Group competes across the range of services that it provides. The awards will, subject to the satisfaction of the performance conditions, vest on the third anniversary of their grant. A two-year holding period will apply to any vested awards.

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 2017 financial year.

Non-Executive Directors' fees

The Non-Executive Director base fee increased by 3% (from £50,000 per annum) with effect from 1 July 2017. There was no increase in the annual fee payable to the Chair of a Board committee, the Senior Independent Director or the Chairman from that date. The total fees payable to the Non-Executive Directors with effect from 1 July 2017 are as follows:

Director	Base fee from 1 July 2017	Chair of Board committee fee from 1 July 2017	Senior Independent Director fee from 1 July 2017	Total from 1 July 2017
Justin Atkinson	£51,500	–	£10,000	£61,500
Constance Baroudel	£51,500	£10,000	–	£61,500
Kirsty Bashforth	£51,500	–	–	£51,500
Philip Cox[1]	£51,500	–	–	£51,500
Adam Walker	£51,500	£10,000	–	£61,500
Phil White[2]	£188,000	–	–	£188,000
Nick Winser	£51,500	£10,000	–	£61,500

1 Philip Cox became Chairman on 1 September 2017, from when he became entitled to receive an annual fee of £235,000 for the role. Prior to Mr Cox's appointment, the Committee reviewed the Chairman's fee to ensure that it was in line with the fee payable at sector peers. Mr. Cox does not receive a fee for his work as the Chair of the Nomination Committee.

2 Phil White retired as Chairman and from the Board with effect from 31 August 2017.

The Remuneration Committee

Membership and meeting attendance

The names of the members of the Committee are set out on page 82, together with an indication of the Committee's principal activities during the 2017 financial year. The Chief Executive and the Group HR Director (Chris Last) are invited to attend Committee meetings. No individuals are involved in decisions relating to their own remuneration. The Committee met formally eight times during the year. The secretary of the Committee is the Company Secretary (Hugh Raven). The Committee's terms of reference can be viewed on the Company's website at www.kier.co.uk/corporategovernance.

Principal activities – 2017 financial year

The annual statement of the Chair of the Remuneration Committee on pages 82 and 83 provides a summary of the Committee's principal activities during the year.

Committee performance evaluation

2017 – progress against 2016 evaluation

The 2016 Board evaluation identified:

- ensuring that the Committee is provided with high quality information at all times; and
- tendering the role of remuneration consultants to the Committee

as being the two key areas of focus for the Committee in the 2017 financial year.

The 2017 Board evaluation process confirmed that good progress had been made with respect to the information provided to the Committee. Following a formal tender process, Mercer was re-appointed as remuneration consultants.

2018 – principal areas of focus

The 2017 Board evaluation identified the need for the Committee to continue to engage with all stakeholders, principally shareholders and the Executive Directors, to understand their views and ensure a balanced application of the new remuneration policy.

Advisers

Mercer also 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 £117,780 (excluding VAT) were payable in respect of Mercer's services as remuneration advisers during the 2017 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 and the Group HR Director.

Shareholder voting

At the 2016 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
46,070,775	89.99	5,122,376	10.01	6,580,923

The remuneration policy was last approved at the 2014 AGM. The results of the vote on the resolution approving the 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' Report

Introduction

This Directors' Report and the Strategic Report on pages 1 to 57 (inclusive) together comprise the 'management report' for the purposes of Disclosure and Transparency Rule 4.1.5R.

Information incorporated by reference

The following information is provided in other appropriate sections of this Annual Report and the financial statements and is incorporated by reference:

Information	Reported in	Pages
Corporate governance	Corporate Governance Statement	60 to 81 (inclusive)
	Statement of Directors' Responsibilities	104
Directors	Board of Directors	66 and 67
	Directors' Remuneration Report – Directors' shareholdings and share interests	97
Financial instruments	Financial statements – note 27	146 to 149 (inclusive)
Going concern	Board statements	62
Greenhouse gas emissions	Corporate responsibility	33
Important events since the end of the financial year	Chief Executive's strategic review	14 to 19 (inclusive)
Likely future developments	Chief Executive's strategic review	19
Results and dividends	Chairman's statement	12

Political donations

The Company made no political donations during the year (2016: 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 sharesave schemes for eligible employees and a share incentive plan for all employees, which includes a share-matching element.

Share capital

As at 30 June 2017, the issued share capital of the Company consisted of 97,443,035 ordinary shares of 1 pence each. Details of changes to the ordinary shares issued and of options and awards granted during the year are set out in note 25 to the consolidated financial statements.

Subject to the provisions of the articles of association of the Company (the Articles) and prevailing 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 20 September 2017, 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 Aberdeen plc[2]	9.6%
BlackRock Inc	6.5%
Brewin Dolphin Limited	5.0%
Rathbone Investment Management Ltd	4.9%
Schroders plc	4.8%
Norges Bank	3.0%

1 Subject to rounding.

2 Aggregate of Standard Life Aberdeen plc affiliated investments following the merger of Aberdeen Asset Management PLC and Standard Life plc on 14 August 2017.

Securities carrying special rights

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

Rights under employee share schemes

As at 30 June 2017, RBC Trustees (Guernsey) Limited (RBC), as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 130,774 shares (approximately 0.13% 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 to dividends in respect of such shares, other than those relating to the annual bonus arrangements.

As at 30 June 2017, Yorkshire Building Society (YBS) held 1,180,448 shares (approximately 1.21% of the Company's issued share capital) on trust for the benefit of members of the SIP. At the same date, YBS also held 11,674 shares (0.01% 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 2017, 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, 219,759 and 19,045 shares (in aggregate, approximately 0.25% 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 waives 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 the shareholder 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 until the next AGM of the Company after his/her appointment and is then eligible to stand for election.

Each of the Directors will be standing for either election or re-election by members at the 2017 AGM. Further information about the Directors' skills and experience and the effectiveness of the Board can be found on pages 66 to 69 (inclusive).

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, applicable law 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 18 November 2016 to allot shares in the Company (i) up to an aggregate nominal amount of £321,124 and (ii) up to an aggregate nominal amount of £642,249 in connection with a rights issue. The Directors were also granted authority to allot shares (i) non-pre-emptively and wholly for cash up to an aggregate nominal amount of £48,168 and (ii) for the purposes of financing an acquisition or other capital investment up to a further nominal amount of £48,168.

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 or remuneration arrangements 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 2018 and a resolution relating to this re-appointment will be tabled at the forthcoming AGM.

AGM

The Company's 2017 AGM will be held at 12 noon on 17 November 2017 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

20 September 2017

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 Directors' 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 66 and 67, 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

20 September 2017

Independent auditor’s report to the members of Kier Group plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Kier Group plc’s Group financial statements and Company financial statements (the “financial statements”) give a true and fair view of the state of the Group’s and of the Company’s affairs as at 30 June 2017 and of the Group’s profit and cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 “Reduced Disclosure Framework”, and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the “Annual Report”), which comprise: the Consolidated income statement and statement of comprehensive income, the Consolidated and Company statements of changes in equity, the Consolidated and Company balance sheets as at 30 June 2017, and the Consolidated cash flow statements, for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Risk Management and Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (“ISAs (UK)”) and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors’ responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

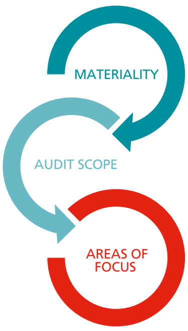
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the Financial Reporting Council’s (“FRC”) Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC’s Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in the Corporate Governance Statement in page 78, we have provided no non-audit services to the Group or the Company in the period from 1 July 2016 to 30 June 2017.

Our audit approach

Overview



- £6.3m (2016: £6.2m) – Group financial statements
- Based on 5% of consolidated profit before tax from continuing operations excluding non-underlying items.
- £4.9m (2016: £5.0m) – Company financial statements
- Based on the lower of component and statutory materiality based on 2% of total assets.

- We conducted audit work across all five of the Group’s divisions, which accounted for 95% of Group revenues.

- Valuation of land and properties (Group).
- Accounting for long-term contracts – including profit recognition, work in progress and provisioning (Group).
- Accounting for adjustments to underlying profit (Group).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors’ professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Valuation of land and properties Refer to page 76 (Risk Management and Audit Committee Report), page 121 (accounting policy) and page 140 (notes). Inventory in the Residential and Property divisions is stated at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell). An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon management's estimate of forecast selling prices and build costs (by reference to current prices), which may require significant judgement. The Group holds inventory of £593.9m (2016: £675.9m). The Residential division comprises the Group's land held for residential development of £39.0m (2016: £137.3m) and residential work in progress of £132.7m (2016: £114.6m) where building work has commenced. In particular, we focused our work on those sites with a value of £46.7m (2016: £47.1m) where there is no immediate intention of development as there is a heightened risk that they are valued above their recoverable amount. Therefore a change in the Group's forecast estimate of sales price and build cost could have a material impact on the carrying value of inventories in the Group's financial statements. The Property division comprises the Group's land held for commercial development of £3.2m (2016: £3.1m) and mixed use commercial and residential development work in progress of £55.0m (2016: £34.2m) where building has commenced. In particular, we focused our work on testing the recoverable amount of work in progress in commercial and residential developments as this could have a material impact on the carrying value of inventories held in the Group's financial statements.	We reviewed the property-specific development appraisals supporting the carrying values and challenged the key assumptions underlying these appraisals as follows: **Residential** › We reviewed management's expected build cost per square foot by comparing to the build costs for similar units on other sites and where there were differences, validating explanations against third-party confirmations including quantity surveyor cost estimates, correspondence with suppliers or comparable properties on other sites; › We challenged management on their intention to develop these sites; and › We challenged management's forecast sales prices to supporting third-party evidence from management's external sales agents and by comparing the forecast sales price of a sample of sales prices achieved and the list prices of comparable assets as published by estate agents. **Property** › We reconciled the development appraisals to the WIP summary; › We interviewed the Development Manager responsible for each site to understand the status of the development and challenged the key judgements and inputs; › We obtained, where applicable, third party independent comparable evidence to support the rental and yield rates adopted in the appraisal and ensured that they were prepared by suitably qualified professionals; › We obtained (where applicable) 3rd Party independent construction quotes from tender documents, surveyor reports or similar and ensured that they were prepared by suitably qualified professionals; › We obtained confirmation from external sources for any other applicable items to the appraisal and; › We obtained confirmation over legal title and Planning Consent of each development. We did not encounter any issues through our audit procedures that indicated the land or properties tested were impaired.

Key audit matter	How our audit addressed the key audit matter
Accounting for long-term contracts – including profit recognition, work in progress and provisioning Refer to page 76 (Risk Management and Audit Committee Report) and page 118 (accounting policy). The Group has significant long-term contracts in both the Construction and Services divisions. The recognition of profit on construction in accordance with IAS 11 is based on the stage of completion of contract activity. This is assessed by reference to the proportion of contract costs incurred for the work performed at the balance sheet date relative to the estimated total costs of the contract at completion. Recoverability of work in progress on long-term services contracts involves significant estimates including an assessment of the end of life outcome of the projects. Profit on contracts is a significant risk for our audit because of the judgement involved in preparing suitable estimates of the forecast costs and revenue on contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current period. These judgements include the expected recovery of costs arising from the following: variations to the contract requested by the customer, compensation events, and claims made both by and against the Group for delays or other additional costs arising or projected to arise. The inclusion of these estimated amounts in the contract forecast at an inappropriate level could result in a material error in the level of profit or loss recognised by the Group.	We focused our work on those contracts with the greatest estimation uncertainty over the final contract values and therefore profit outcome. These in particular included the forecast end of life positions on a number of infrastructure projects which have experienced significant change and therefore cost growth. We challenged the judgements applied in management's forecasts, in particular the key assumptions, which included the expected recovery of variations, claims and compensation events from clients, and estimated recoveries from subcontractors, designers, and insurers included in the forecast. We inspected correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtained third-party assessments of these from legal or technical experts contracted by the Group, if applicable, to assess whether this information was consistent with the estimates made. We inspected selected signed contracts for key clauses to identify relevant contractual mechanisms such as the sharing of cost overruns or efficiencies with the customer, contractual damages and success fees and assessed whether these key clauses have been appropriately reflected in the amounts included in the forecasts. We inspected correspondence with insurers relating to recognised insurance claims as well as assessments of these undertaken by the insurers and Group's legal experts where applicable to assess whether this information supported the position taken on the contract. In respect of long-term Environmental Services contracts we challenged the assumptions in the cash flow models surrounding efficiency improvements in the cost base and projected revenues from the sale of recyclate. Overall based on these procedures, we are satisfied that the work in progress relating to the Group's contracts is appropriately stated and that revenue and profits have been recorded appropriately.

Key audit matter	How our audit addressed the key audit matter
Accounting for adjustments to underlying profit Refer to page 76 (Risk Management and Audit Committee Report), page 118 (accounting policy) and page 125 (notes). In order to give a better understanding of the underlying performance of the business, management has presented a view of the underlying results of the Group, with separate disclosure of 'non-underlying items' consisting of the following: › £26.3m of costs and charges associated with the closure of Hong Kong operations and associated contract losses; › £2.2m of charges in relation to the establishment of Cross Keys Homes joint venture; › A £40.0m gain relating to the disposal of Mouchel Consulting; › £60.4m of costs associated with the closure of the Caribbean business and associated contract losses; › £8.0m of charges in relation to provisions for HSE fines arising from revised sentencing guidelines; › £11.1m of charges in relation to under-performing contracts in Environmental Services; › A £7.6m loss relating to the disposal of the investment in Biogen; › £5.5m of charges including £1.4m loss arising on disposal of Saudi Mining business and £4.1m of professional costs relating to M&A activity incurred during the year; and › £25.2m of intangible amortisation, discount unwind on acquired businesses and mining interest payable on borrowings. The determination of which items are classified as 'non-underlying' is subject to judgement and therefore users of the accounts could be misled if amounts are not classified appropriately or presented consistently. We also considered the risk of one-off gains during the year not being properly identified and therefore presented inappropriately within underlying profit.	We considered the appropriateness of the adjustments made to the statutory result before tax to derive underlying performance. In order to do this we considered: › The Group's accounting policy on exceptional and non-underlying items; › The application of IFRS, in particular IAS 1; and European Securities and Markets Authority ("ESMA") guidelines on alternative performance measures issued on 3 July 2016. We challenged management on the appropriateness of the classification of each item, being mindful that classification should be balanced between gains and losses, the basis for the classification clearly disclosed and applied consistently from one year to the next. Our work identified certain items that management had classified as non-underlying which we considered to be more judgemental in nature than others. These included the Caribbean and Hong Kong exit costs of £60.4m and £26.3m respectively. In each case these included a material project loss in addition to closure costs. Having assessed in detail the nature of the individual components of the exit costs, we were satisfied with their presentation as non-underlying and the explanations provided in the financial statements as to their nature. We assessed the nature of material non-recurring gains during the year impacting the underlying result before tax and challenged management as to whether these should be identified within non-underlying items. Having considered the nature and quantum of these items, overall we were satisfied that the presentation of non-underlying and exceptional items in the financial statements for the year ended 30 June 2017 is materially appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's operations and reporting process is structured around five divisions represented by Property, Residential, Construction, Services, and Corporate. All five reporting divisions are considered financially significant and were in scope for the Group audit.

The vast majority of the Group's operations are concentrated in the UK and account for 93% of the Group revenue, with the remaining 7% generated from overseas businesses. Our audit approach was designed to obtain coverage over 95% of the Group's revenue which included UK and overseas operations. We are satisfied that we obtained appropriate audit coverage over the Group's Income statement, Balance sheet and cash flows through our audit work on the UK and overseas operations.

During the course of the audit, we have visited a number of projects and operations located across the UK. We have also visited the Group's operations in Dubai and held meetings with local management and our local component audit team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Overall materiality	£6.3m (2016: £6.2m).	£4.9m (2016: £5.0m).
How we determined it	5% of consolidated profit before tax from continuing operations and excluding non-underlying items.	Approximately 1% of total assets, limited by the allocation of component materiality.
Rationale for benchmark applied	Based on our professional judgement, we determined materiality by applying a benchmark of 5% of consolidated profit before tax excluding non-underlying items. We believe that underlying profit before tax is the most appropriate measure as it eliminates any disproportionate effect of exceptional charges and provides a consistent year-on-year basis for our work.	We believe that calculating statutory materiality based on 1% of total assets is appropriate as total assets is a typical primary measure for users of the financial statements of holding companies, and is a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £1.9m and £5.5m. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Risk Management and Audit Committee that we would report to them misstatements identified during our audit above £0.3m (Group audit) (2016: £0.3m) and £0.3m (Company audit) (2016: £0.3m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report and Accounts other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the group

We have nothing material to add or draw attention to regarding:

- The directors' confirmation on page 62 of the Annual Report 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 disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 62 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report having performed a review of the directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the "Code"); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the directors, on page 62, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on page 73 describing the work of the Risk Management and Audit Committee does not appropriately address matters communicated by us to the Risk Management and Audit Committee.
- The directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' Remuneration

In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 104, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Risk Management and Audit Committee, we were appointed by the members on 13 November 2014 to audit the financial statements for the year ended 30 June 2015 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ended 30 June 2015 to 30 June 2017.

Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors

London

20 September 2017

Financial Statements

Consolidated income statement

For the year ended 30 June 2017

	Notes	2017 Underlying items[1] £m	2017 Non-underlying items (note 4) £m	2017 Total £m	2016[2] Underlying items[1] £m	2016[2] Non-underlying items (note 4) £m	2016[2] Total £m
Continuing operations							
Revenue[3]							
Group and share of joint ventures	2	**4,265.2**	**17.1**	**4,282.3**	4,078.7	3.6	4,082.3
Less share of joint ventures	2	**(153.5)**	**–**	**(153.5)**	(90.9)	–	(90.9)
Group revenue		**4,111.7**	**17.1**	**4,128.8**	3,987.8	3.6	3,991.4
Cost of sales		**(3,728.3)**	**(111.8)**	**(3,840.1)**	(3,605.7)	(29.4)	(3,635.1)
Gross profit		**383.4**	**(94.7)**	**288.7**	382.1	(25.8)	356.3
Administrative expenses		**(268.2)**	**(33.7)**	**(301.9)**	(257.8)	(122.7)	(380.5)
Share of post-tax results of joint ventures	14	**25.0**	**–**	**25.0**	14.2	–	14.2
Profit on disposal of joint ventures and subsidiaries	30	**5.4**	**31.0**	**36.4**	2.6	–	2.6
Profit/(loss) from operations	2,3	**145.6**	**(97.4)**	**48.2**	141.1	(148.5)	(7.4)
Finance income	5	**1.8**	**–**	**1.8**	0.8	–	0.8
Finance costs	5	**(21.3)**	**(2.9)**	**(24.2)**	(25.5)	(2.8)	(28.3)
Profit/(loss) before tax	2	**126.1**	**(100.3)**	**25.8**	116.4	(151.3)	(34.9)
Taxation	9a	**(21.9)**	**12.0**	**(9.9)**	(20.9)	32.1	11.2
Profit/(loss) for the year from continuing operations		**104.2**	**(88.3)**	**15.9**	95.5	(119.2)	(23.7)
Discontinued operations							
(Loss)/profit for the year from discontinued operations (attributable to equity holders of the parent company)	19	**(4.1)**	**–**	**(4.1)**	6.9	–	6.9
Profit/(loss) for the year		**100.1**	**(88.3)**	**11.8**	102.4	(119.2)	(16.8)
Attributable to:							
Owners of the parent		**99.0**	**(88.3)**	**10.7**	101.6	(119.2)	(17.6)
Non-controlling interests		**1.1**	**–**	**1.1**	0.8	–	0.8
		100.1	**(88.3)**	**11.8**	102.4	(119.2)	(16.8)
Basic earnings/(loss) per share							
– From continuing operations	11	**106.8p**	**(91.5)p**	**15.3p**	99.5p	(125.2)p	(25.7)p
– From discontinued operations	11	**(4.2)p**	**–**	**(4.2)p**	7.2p	–	7.2p
– Total		**102.6p**	**(91.5)p**	**11.1p**	106.7p	(125.2)p	(18.5)p
Diluted earnings/(loss) per share							
– From continuing operations	11	**106.1p**	**(90.9)p**	**15.2p**	99.5p	(125.2)p	(25.7)p
– From discontinued operations	11	**(4.2)p**	**–**	**(4.2)p**	7.2p	–	7.2p
– Total		**101.9p**	**(90.9)p**	**11.0p**	106.7p	(125.2)p	(18.5)p

1 Stated before non-underlying items (see note 4).

2 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

3 Non-underlying revenue relates exclusively to UK Mining operations.

Consolidated statement of comprehensive income

For the year ended 30 June 2017

	Notes	**2017 £m**	2016[1] £m
Profit/(loss) for the year		**11.8**	(16.8)
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements on cash flow hedging instruments	14	**(2.2)**	(0.1)
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments	9c	**0.4**	–
Fair value gain on cash flow hedging instruments	27	**1.6**	18.5
Fair value movements on cash flow hedging instruments recycled to the income statement	5	**(4.2)**	(17.7)
Deferred tax on fair value movements on cash flow hedging instruments	9c	**0.4**	(0.2)
Foreign exchange gains on long-term funding of foreign operations		**1.7**	9.6
Foreign exchange translation differences		**1.1**	(1.1)
Foreign exchange movements recycled to the income statement[2]		**(3.7)**	–
Total items that may be reclassified subsequently to the income statement		**(4.9)**	9.0
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit liabilities	8	**(29.3)**	47.6
Deferred tax credit/(charge) on actuarial (losses)/gain on defined benefit liabilities	9c	**2.1**	(9.1)
Total items that will not be reclassified to the income statement		**(27.2)**	38.5
Other comprehensive (loss)/income for the year		**(32.1)**	47.5
Total comprehensive (loss)/income for the year		**(20.3)**	30.7
Attributable to:			
Equity holders of parent		**(21.4)**	29.9
Non-controlling interests – continuing operations		**1.1**	0.8
		(20.3)	30.7

Total comprehensive (loss)/income attributable to equity shareholders arises from:		
Continuing operations	**(17.3)**	23.0
Discontinued operations	**(4.1)**	6.9
	(21.4)	29.9

1 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

2 Amounts previously booked in the translation reserve, arising from retranslation of the results and balance sheet of the Group's Hong Kong operations, have been recycled to the income statement following the closure of those operations.

Consolidated statement of changes in equity

For the year ended 30 June 2017

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 1 July 2015	1.0	408.5	2.7	41.7	(2.2)	(2.9)	134.8	583.6	1.8	585.4
(Loss)/profit for the year	–	–	–	(17.6)	–	–	–	(17.6)	0.8	(16.8)
Other comprehensive income	–	–	–	38.5	0.5	8.5	–	47.5	–	47.5
Dividends paid	–	–	–	(54.7)	–	–	–	(54.7)	(0.4)	(55.1)
Issue of own shares	–	9.5	–	–	–	–	–	9.5	–	9.5
Share-based payments	–	–	–	5.6	–	–	–	5.6	–	5.6
At 30 June 2016	1.0	418.0	2.7	13.5	(1.7)	5.6	134.8	573.9	2.2	576.1
Profit for the year	–	–	–	10.7	–	–	–	10.7	1.1	11.8
Other comprehensive (loss)	–	–	–	(27.2)	(4.0)	(0.9)	–	(32.1)	–	(32.1)
Dividends paid	–	–	–	(63.0)	–	–	–	(63.0)	(0.3)	(63.3)
Issue of own shares	–	16.8	–	–	–	–	–	16.8	–	16.8
Purchase of own shares	–	–	–	(0.6)	–	–	–	(0.6)	–	(0.6)
Share-based payments	–	–	–	2.7	–	–	–	2.7	–	2.7
At 30 June 2017	**1.0**	**434.8**	**2.7**	**(63.9)**	**(5.7)**	**4.7**	**134.8**	**508.4**	**3.0**	**511.4**

The numbers shown in the table above are shown net of tax as applicable.

Consolidated balance sheet

At 30 June 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Intangible assets	12	**802.8**	794.6
Property, plant and equipment	13	**90.4**	99.3
Investments in and loans to joint ventures	14	**184.4**	129.8
Deferred tax assets	15	**11.6**	7.3
Trade and other receivables	18	**38.2**	34.7
Non-current assets		**1,127.4**	1,065.7
Current assets			
Inventories	16	**593.9**	675.9
Trade and other receivables	18	**531.1**	523.0
Corporation tax receivable		**0.9**	–
Other financial assets	27	**18.9**	18.1
Cash and cash equivalents	20	**499.8**	186.7
Current assets		**1,644.6**	1,403.7
Assets held for sale as part of a disposal group	19	**–**	18.2
Total assets		**2,772.0**	2,487.6
Current liabilities			
Borrowings	20	**(50.0)**	–
Finance lease obligations	21	**(9.1)**	(13.5)
Other financial liabilities	27	**–**	(0.2)
Trade and other payables	22	**(1,433.7)**	(1,379.5)
Corporation tax payable		**–**	(6.0)
Provisions	23	**(19.0)**	(22.8)
Current liabilities		**(1,511.8)**	(1,422.0)
Liabilities held for sale as part of a disposal group	19	**–**	(13.7)
Non-current liabilities			
Borrowings	20	**(581.8)**	(303.2)
Finance lease obligations	21	**(5.2)**	(12.8)
Other financial liabilities	27	**(0.3)**	(1.1)
Trade and other payables	22	**(16.6)**	(13.2)
Retirement benefit obligations	8	**(84.6)**	(87.8)
Provisions	23	**(60.3)**	(57.7)
Non-current liabilities		**(748.8)**	(475.8)
Total liabilities		**(2,260.6)**	(1,911.5)
Net assets	2	**511.4**	576.1
Equity			
Share capital	24	**1.0**	1.0
Share premium		**434.8**	418.0
Capital redemption reserve		**2.7**	2.7
Retained earnings		**(63.9)**	13.5
Cash flow hedge reserve	24	**(5.7)**	(1.7)
Translation reserve	24	**4.7**	5.6
Merger reserve	24	**134.8**	134.8
Equity attributable to owners of the parent		**508.4**	573.9
Non-controlling interests		**3.0**	2.2
Total equity		**511.4**	576.1

The financial statements on pages 112 to 159 were approved by the Board of Directors on 20 September 2017 and were signed on its behalf by:

Haydn Mursell
Chief Executive

Bev Dew
Finance Director

Consolidated cash flow statement

For the year ended 30 June 2017

	Notes	2017 £m	2016[1] £m
Cash flows from operating activities			
Profit/(loss) before tax – continuing operations		**25.8**	(34.9)
– discontinued operations	19	**(1.8)**	8.5
Non-underlying items	4	**75.1**	127.0
Net finance cost	5	**22.4**	27.5
Share of post-tax trading results of joint ventures	14	**(23.5)**	(14.2)
Normal cash contributions to pension fund in excess of pension charge		**2.7**	1.2
Equity settled share-based payments charge	25	**2.7**	5.6
Amortisation of intangible assets	12	**30.1**	27.8
Other non-cash items		**(4.7)**	(4.7)
Depreciation charges	13	**19.7**	21.8
Profit on disposal of joint ventures	30b	**(5.4)**	(2.6)
(Profit)/loss on disposal of property, plant and equipment and intangible assets		**(1.0)**	7.2
Operating cash flows before movements in working capital		**142.1**	170.2
Deficit contributions to pension fund		**(31.3)**	(25.1)
(Increase)/decrease in inventories		**(51.2)**	57.8
(Increase)/decrease in receivables		**(47.2)**	8.7
Increase in payables		**72.6**	39.7
Decrease in provisions		**(22.9)**	(3.7)
Cash inflow from operating activities before non-underlying items		**62.1**	247.6
Cash inflow/(outflow) from non-underlying items		**66.6**	(83.0)
Cash inflow from operating activities		**128.7**	164.6
Dividends received from joint ventures	14	**23.2**	2.8
Interest received		**1.8**	0.8
Income tax paid	9	**(3.8)**	(1.8)
Net cash inflow from operating activities		**149.9**	166.4
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**1.4**	10.6
Proceeds from sale of joint ventures	30b	**26.0**	20.4
Purchase of property, plant and equipment	13	**(15.8)**	(14.1)
Purchase of intangible assets	12	**(44.4)**	(38.1)
Divestment in assets held for resale		**–**	29.8
Investment in joint ventures	14	**(49.3)**	(61.9)
Net cash used in investing activities		**(82.1)**	(53.3)
Cash flows from financing activities			
Issue of shares	24	**3.2**	4.5
Purchase of own shares		**(0.6)**	–
Interest paid		**(19.1)**	(19.5)
Cash inflow/(outflow) incurred from raising finance		**0.9**	(0.6)
Inflow from finance leases on property, plant and equipment	21	**1.7**	3.1
Inflow from new borrowings		**368.5**	75.8
Finance lease repayments	21	**(13.7)**	(17.4)
Repayment of borrowings		**(45.0)**	(184.5)
Dividends paid to equity holders of the parent		**(49.4)**	(49.7)
Dividends paid to minority interests		**(0.3)**	(0.4)
Net cash from/(used in) financing activities		**246.2**	(188.7)
Increase/(decrease) in cash, cash equivalents and overdraft		**314.0**	(75.6)
Effect of change in foreign exchange rates		**(0.9)**	8.3
Opening cash, cash equivalents and overdraft		**186.7**	254.0
Closing cash, cash equivalents and overdraft	20	**499.8**	186.7

1 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

Notes to the consolidated financial statements

For the year ended 30 June 2017

1 Significant accounting policies

Kier Group plc (the Company) is a public limited company domiciled in the United Kingdom (UK), incorporated in England and Wales and listed on the London Stock Exchange. The Company's registered number is 2708030. The consolidated financial statements of the Company for the year ended 30 June 2017 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint arrangements.

The consolidated financial statements were approved by the directors on 20 September 2017.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and therefore comply with Article 4 of the EU IAS Regulation and with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards issued by the International Accounting Standards Board ('IASB') and interpretations issued by the IFRS Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 July 2016.

The Company has elected to prepare its parent company financial statements in accordance with the FRS101 'Reduced Disclosure Framework'. These are presented on pages 160 to 165.

Basis of preparation

The Group has considerable financial resources, long-term contracts and a diverse range of customers and suppliers across its business activities.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value.

The following amendments to standards are effective for the financial year ended 30 June 2017 onwards:

- Amendments to IFRS 11 Joint Arrangements
- Amendments to IFRS 12 Disclosure of Interests in Other Entities
- Amendments to IAS 1 Presentation of Financial Instruments
- Amendments to IAS 16 Property, Plant and Equipment
- Amendments to IAS 38 Intangible Assets
- Annual Improvements to IFRSs 2014

None of the above amendments to standards have had a material effect on the Group's financial statements.

The following new standards and amendments to standards have been issued but were not yet effective and therefore have not been applied in these financial statements:

IFRS 2 (amendments)	Share Based Payment
IFRS 4 (amendments)	Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts
IAS 7 (amendments)	Statement of Cash Flows
IAS 12 (amendments)	Income Taxes
IFRIC 22	Foreign Currency Transaction and Advanced Consideration
IFRIC 23	Uncertainty over Income Tax Treatments
Annual Improvements	2014-2016 cycle

The directors are considering the impact of these new standards and interpretations in future periods.

IFRS 15 will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts'. It will become effective for accounting periods beginning on or after 1 January 2018. The Group is not currently contemplating early adoption and therefore IFRS 15 will be applied for the first time to the Group accounts for the year ended 30 June 2019. The Group is working closely with its advisors to assess the potential impacts of IFRS 15 'Revenue from Contracts with Customers', including consideration of transition method.

The main impact of IFRS 16 will be to move the Group's larger, longer term operating leases, primarily on property, onto the balance sheet with a consequential increase in non-current assets and finance lease obligations. Operating lease charges included in administrative expenses will be replaced by depreciation and interest costs. No decision has yet been made on the transition method or the timing of adoption of IFRS 16.

Other than the impact of IFRS 15 and IFRS 16 as noted above, no significant net impact from the adoption of these new standards is expected. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2017. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurements are recognised in profit or loss.

1 Significant accounting policies continued

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the result is negative, a 'bargain purchase' gain is recognised immediately in the income statement.

Provisional fair values allocated at a reporting date are finalised within 12 months of the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement unless the contingent consideration is classified as equity, in which case settlement is accounted for within reserves.

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(b) Joint arrangements

A joint arrangement is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties.

The Group's interests in joint ventures are accounted for using the equity method. Under this method the Group's share of the profits less losses of joint ventures is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil, following which no further losses are recognised. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

From time to time the Group undertakes contracts jointly with other parties. These fall under the category of joint operations as defined by IFRS 11. In accordance with IFRS 11, the Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements.

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Negative goodwill is recognised in the income statement immediately. On disposal of a subsidiary or jointly controlled entity, the attributable carrying amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets which comprise contract rights and computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to administrative expenses in the income statement on a straight-line basis over the expected useful lives of the assets, which are principally as follows:

Contract rights	Over the remaining contract life
Computer software	3–7 years

Internally generated intangible assets developed by the Group are recognised only if all of the following conditions are met:

- An asset is created that can be identified;
- It is probable that the asset created will generate future economic benefits; and
- The development cost of the asset can be measured reliably.

Other research expenditure is written off in the period in which it is incurred.

Non-underlying items[1]

Certain items are presented separately in the consolidated income statement as non-underlying items where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance.

Examples of material items which may give rise to disclosure as non-underlying items include gains or losses on the disposal of businesses, gains or losses on closure of businesses, costs of restructuring and reorganisation of existing businesses, certain material and one-off provisions, integration of newly acquired businesses, asset impairments and acquisition transaction costs and unwind of discounts.

Amortisation of acquired intangible assets is also treated as a non-underlying item so that the underlying profit of the Group can be measured on a comparable basis from period to period.

These are examples, and from time to time it may be appropriate to disclose further items as non-underlying in order to highlight the underlying performance of the Group.

Underlying operating profit is one of the key measures used by the Board to monitor the Group's performance.

1 Exceptional items.

Revenue and profit recognition

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts and after eliminating sales within the Group. It also includes the Group's proportion of work carried out under jointly controlled operations.

Revenue and profit are recognised as follows:

(a) Construction contracts

Revenue arises from increases in valuations on contracts and is normally determined by external valuations. It is the gross value of work carried out for the period to the balance sheet date (including retentions) but excludes claims until they are actually certified.

Profit on contracts is calculated in accordance with accounting standards and industry practice. Industry practice is to assess the estimated final outcome of each contract and recognise the profit based upon the percentage of completion of the contract at the relevant date. The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are as follows:

- Profits on short duration contracts are taken when the contract is complete;
- Profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably;
- Provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent;
- Claims receivable are recognised as income when received or certified for payment, except that in preparing contract forecasts to completion, a prudent and reasonable evaluation of claims receivable may be included to mitigate foreseeable losses and only to the extent that there is reasonable certainty of recovery; and
- Variations and compensation events are included in forecasts to completion when it is considered highly probable that they will be recovered.

Percentage completion is normally calculated by taking certified value to date as a percentage of estimated final value, unless the internal value is materially different to the certified value, in which case the internal value is used.

(b) Services

Revenue and profit from services rendered, which include facilities management, highways maintenance, street cleaning and recycling, is recognised as and when the service is provided.

Where revenue that has been recognised is subsequently determined not to be recoverable due to a dispute with the client, these amounts are charged against the revenue recognised. Where non-recovery is as a result of inability of a client to meet its obligations, these amounts are charged to administrative expenses.

Unbilled revenue is the difference between the revenue recognised and the amounts actually invoiced to customers. Where invoicing exceeds the amount of revenue recognised these amounts are included in deferred income.

(c) Private housing and land sales

Revenue from housing sales is recognised at the fair value of the consideration received or receivable on legal completion, net of incentives. Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts. Profit is recognised on a site-by-site basis by reference to the expected out-turn result from each site. The principal estimation technique used by the Group in attributing profit on sites to a particular period is the preparation of forecasts on a site-by-site basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn on each site. Consistent review procedures are in place in respect of site forecasting. Provision is made for any losses foreseen in completing a site as soon as they become apparent.

(d) Property development

Revenue in respect of property developments is taken on unconditional exchange of contracts on disposal of finished developments. Profit taken is subject to any amounts necessary to cover residual commitments relating to development performance. Provision is made for any losses foreseen in completing a development as soon as they become apparent.

Where developments are sold in advance of construction being completed, revenue and profit are recognised from the point of sale and as the significant outstanding acts of construction and development are completed. If a development is sold in advance of the commencement of construction, no revenue or profit is recognised at the point of sale. Revenue and profit are recognised in line with the progress on construction, based on the percentage completion of the construction and development work. If a development is sold during construction but prior to completion, revenue and profit are recognised at the time of sale in line with the percentage completion of the construction and development works at the time of sale and thereafter in line with the percentage of completion of the construction and development works.

(e) Private Finance Initiative (PFI) service concession agreements

Revenue relating to construction or upgrade services under a service concession agreement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see above). Operation or service revenue is recognised in the period in which the services were provided by the Group. When the Group provides more than one service in a service concession agreement, the consideration received is allocated by reference to the relative fair values of the services delivered.

Pre-contract costs

Costs associated with bidding for contracts are written off as incurred (pre-contract costs). When it is probable that a contract will be awarded, usually when the Group has secured preferred bidder status, costs incurred from that date to the date of financial close are carried forward in the balance sheet as other receivables.

When financial close is achieved on PFI or Public Private Partnership (PPP) contracts, costs are recovered from the special purpose vehicle and pre-contract costs within this recovery that were not previously capitalised are credited to the income statement, except to the extent that the Group retains a share in the special purpose vehicle. The amount not credited is deferred and recognised over the life of the construction contract to which the costs relate.

Property, plant and equipment and depreciation

Depreciation is based on historical or deemed cost, including expenditure that is directly attributable to the acquisition of the items, less the estimated residual value, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated to residual values in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold land and buildings	25–50 years
Leasehold buildings and improvements	Period of lease
Plant and equipment (including vehicles)	3–12 years

Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the asset.

1 Significant accounting policies continued

Leases

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases, and the rental charges are charged to the income statement on a straight-line basis over the life of each lease.

Employee benefits

(a) Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

The Group accounts for defined benefit obligations in accordance with IAS19. Obligations are measured at discounted present value while plan assets are measured at fair value. The operating and financing costs of such plans are recognised separately in the income statement; current service costs are spread systematically over the lives of employees and financing costs are recognised in full in the period in which they arise. Re-measurements of the net defined pension liability, including actuarial gains and losses, are recognised immediately in other comprehensive income.

The net finance cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance costs in the income statement.

Where the calculations result in a surplus to the Group, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan.

(b) Share-based payments

Share-based payments granted but not vested are valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long Term Incentive Plan (LTIP) schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a stochastic model.

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

Shares purchased and held in trust in connection with the Group's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

Finance income and costs

Interest receivable and payable on bank balances is credited or charged to the income statement as incurred using the effective interest rate method.

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

Borrowing costs incurred within the Group's jointly controlled entities relating to the construction of assets in PFI and PPP projects are capitalised until the relevant assets are brought into operational use.

Notional interest payable, representing the unwinding of the discount on long-term liabilities, is charged to finance costs.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax provision is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from foreign currency transactions are reflected in the income statement.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The consolidated financial statements are presented in GBP, which is the Group's presentation currency.

The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Trading profits or losses are translated at average rates prevailing during the accounting period. Differences on exchange arising from the retranslation of net investments in overseas subsidiary undertakings at the year end rates are recognised in other comprehensive income. All other translation differences are reflected in the income statement.

Mining assets

Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the 'coaling life' of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within finance costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset.

Where there is a subsequent change to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

Inventories

Inventories, including land held for and in the course of development, are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Cost in certain circumstances also includes notional interest as explained in the accounting policy for finance income and costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Construction work in progress is included within inventories in the balance sheet. It is measured at cost plus profit less losses recognised to date less progress billings. If payments received from customers exceed the income recognised, the difference is included within trade and other payables in the balance sheet.

Land inventory is recognised at the time a liability is recognised; generally after exchange of unconditional contracts.

Property inventory, which represents all development land and work in progress, is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the income statement.

Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets are available for sale in their present condition.

Share capital

The ordinary share capital of the Company is recorded as the proceeds received, net of directly attributable incremental issue costs.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities

The Group discloses a contingent liability in circumstances where it has a possible obligation depending on whether some uncertain future event occurs; or has a present obligation but payment is not probable or the amount can't be measured reliability.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. An assessment of whether a financial asset is impaired is made at least at each reporting date. The principal financial assets and liabilities of the Group are as follows:

(a) Trade receivables and trade payables

Given the varied activities of the Group it is not practicable to identify a common operating cycle. The Group has therefore allocated receivables and payables due within 12 months of the balance sheet date to current with the remainder included in non-current.

Trade receivables do not carry interest and are stated at their initial cost reduced by appropriate allowances for estimated irrecoverable amounts.

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land purchases, are discounted and recorded at their present value.

(b) Cash and cash equivalents

Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand, including bank deposits with original maturities of three months or less, net of bank overdrafts where legal right of set off exists. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(c) Bank and other borrowings

Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

(d) Private Finance Initiative (PFI) assets

Under the terms of a PFI or similar project, where the risks and rewards of ownership remain largely with the purchaser of the associated services, the Group's interest in the asset is classified as a financial asset and included at its amortised cost within investment in joint ventures.

(e) Derivative financial instruments

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on observable market prices at the balance sheet date.

(f) Government grants

Government grant income is recognised at the point that there is reasonable assurance that the Group will comply with the conditions attached to it, and that the grant will be received.

1 Significant accounting policies continued

Critical accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Revenue and profit recognition

The estimation techniques used for revenue and profit recognition in respect of property development, private housing sales, construction contracts and services contracts require forecasts to be made of the outcome of long-term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

(b) Valuation of land and work in progress

The key judgements and estimates in determining the net realisable value of land and work in progress are:

- An estimation of costs to complete;
- An estimation of the remaining revenues; and
- An estimation of selling costs.

These assessments include a degree of uncertainty and therefore if the key judgements and estimates change unfavourably, write downs of land and work in progress may be necessary.

(c) Defined benefit pension scheme valuations

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

- Expected return on plan assets;
- Inflation rate;
- Mortality;
- Discount rate; and
- Salary and pension increases.

Details of the assumptions used are included in note 8.

(d) Provisions

Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the amount and timing of liabilities judgement is applied and re-evaluated at each reporting date.

(e) Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units (CGUs) to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the CGU and the application of a suitable discount rate in order to calculate the net present value. Cash flow forecasts for the next three years are based on the Group's budgets and forecasts. Other key inputs in assessing each CGU are revenue growth, operating margin and discount rate. The assumptions are set out in note 12 together with an assessment of the impact of reasonably possible sensitivities.

(f) Non-underlying items

Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying or non-underlying items requires judgement.

A total non-underlying cost of £88.3m after tax was charged to the income statement for the year ended 30 June 2017. The items that comprise this are set out in note 4 together with an explanation of their nature.

(g) Taxation

The Group is subject to tax in a number of jurisdictions and judgement is required in determining the overall provision for income taxes. The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposures.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised.

2 Segmental reporting

The Group operates four divisions: Property, Residential, Construction and Services, which is the basis on which the Group manages and reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

Segmental information is based on the information provided to the Chief Executive, together with the Board, who is the chief operating decision maker. The segments are strategic business units which have different core customers and offer different services. The segments are discussed in the Chief Executive's strategic review on pages 14 to 19 and the divisional reviews on pages 42 to 51.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 117 to 122. The Group evaluates segmental information on the basis of profit or loss from operations before non-underlying items, interest and income tax expense. The segmental results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

2 Segmental reporting

Year to 30 June 2017

Continuing operations	Property £m	Residential £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	182.0	375.7	2,019.4	1,688.1	–	**4,265.2**
Less share of joint ventures	(117.3)	(27.6)	–	(8.6)	–	**(153.5)**
Group revenue	**64.7**	**348.1**	**2,019.4**	**1,679.5**	**–**	**4,111.7**
Profit						
Group operating profit/(loss)	–	18.8	39.8	86.4	(29.8)	**115.2**
Share of post-tax results of joint ventures	20.4	4.0	–	0.6	–	**25.0**
Profit on disposal of joint ventures	5.4	–	–	–	–	**5.4**
Underlying operating profit/(loss)	**25.8**	**22.8**	**39.8**	**87.0**	**(29.8)**	**145.6**
Underlying net finance (costs)/income[2]	(5.0)	(8.9)	5.5	(4.3)	(6.8)	**(19.5)**
Underlying profit/(loss) before tax	**20.8**	**13.9**	**45.3**	**82.7**	**(36.6)**	**126.1**
Non-underlying items						
Amortisation of intangible assets relating to contract rights	(0.1)	–	(0.4)	(21.8)	–	**(22.3)**
Non-underlying finance costs	–	–	(0.4)	(2.5)	–	**(2.9)**
Other non-underlying items	(7.6)	(2.2)	(49.5)	(10.7)	(5.1)	**(75.1)**
Profit/(loss) before tax from continuing operations	**13.1**	**11.7**	**(5.0)**	**47.7**	**(41.7)**	**25.8**
Balance sheet						
Total assets excluding cash	197.3	295.2	625.7	441.3	712.7	**2,272.2**
Liabilities excluding borrowings	(53.9)	(131.2)	(656.1)	(582.9)	(226.6)	**(1,650.7)**
Net operating assets/(liabilities)[3]	**143.4**	**164.0**	**(30.4)**	**(141.6)**	**486.1**	**621.5**
Cash, net of borrowings, net of hedge effects	(75.1)	(134.5)	280.0	116.8	(297.3)	**(110.1)**
Net assets/(liabilities)	**68.3**	**29.5**	**249.6**	**(24.8)**	**188.8**	**511.4**
Other information						
Inter-segmental revenue[4]	–	3.1	6.6	77.9	13.3	**100.9**
Capital expenditure	0.5	0.2	5.4	4.3	5.4	**15.8**
Depreciation of property, plant and equipment	(0.1)	(0.1)	(2.6)	(11.1)	(5.7)	**(19.6)**
Amortisation of computer software	–	–	(0.8)	(0.4)	(6.6)	**(7.8)**
Geographical split of Revenue						
United Kingdom	182.0	375.7	1,855.5	1,565.5	–	**3,978.7**
Americas	–	–	8.7	–	–	**8.7**
Middle East	–	–	131.0	–	–	**131.0**
Far East & Australia	–	–	24.2	122.6	–	**146.8**
Total (continuing operations)	**182.0**	**375.7**	**2,019.4**	**1,688.1**	–	**4,265.2**

1 Revenue is stated after the exclusion of inter-segmental revenue.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.0% (2016: 4.0%).
3 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest bearing inter-company loans.
4 Inter-segmental pricing is determined on an arm's length basis.

2 Segmental reporting continued

Year to 30 June 2016

Continuing operations	Property[1] £m	Residential £m	Construction[2] £m	Services £m	Corporate £m	Group £m
Revenue[3]						
Group and share of joint ventures	168.9	352.9	1,900.8	1,656.1	–	**4,078.7**
Less share of joint ventures	(70.8)	–	(10.3)	(9.8)	–	**(90.9)**
Group revenue	**98.1**	**352.9**	**1,890.5**	**1,646.3**	**–**	**3,987.8**
Profit						
Group operating profit/(loss)	6.8	20.3	37.2	85.6	(25.6)	**124.3**
Share of post-tax results of joint ventures	12.0	–	1.7	0.5	–	**14.2**
Profit on disposal of joint ventures	2.6	–	–	–	–	**2.6**
Underlying operating profit/(loss)	**21.4**	**20.3**	**38.9**	**86.1**	**(25.6)**	**141.1**
Underlying net finance (costs)/income[4]	(5.4)	(10.2)	1.8	(10.0)	(0.9)	**(24.7)**
Underlying profit/(loss) before tax	**16.0**	**10.1**	**40.7**	**76.1**	**(26.5)**	**116.4**
Non-underlying items						
Amortisation of intangible assets relating to contract rights	(0.1)	–	(0.4)	(21.0)	–	**(21.5)**
Non-underlying finance costs	–	–	(0.4)	(2.4)	–	**(2.8)**
Other non-underlying items	(5.3)	(0.8)	(41.7)	(59.5)	(19.7)	**(127.0)**
Profit/(loss) before tax from continuing operations	**10.6**	**9.3**	**(1.8)**	**(6.8)**	**(46.2)**	**(34.9)**
Balance sheet						
Total assets excluding cash	177.0	314.6	627.0	539.9	624.2	**2,282.7**
Liabilities excluding borrowings	(41.7)	(111.8)	(690.5)	(631.7)	(136.6)	**(1,612.3)**
Net operating assets/(liabilities) excluding assets held for sale[5]	**135.3**	**202.8**	**(63.5)**	**(91.8)**	**487.6**	**670.4**
Cash, net of borrowings, net of hedge effects	(77.2)	(177.2)	277.1	26.7	(148.2)	**(98.8)**
Net assets/(liabilities) excluding assets held for sale	**58.1**	**25.6**	**213.6**	**(65.1)**	**339.4**	**571.6**
Assets held for sale	–	–	4.5	–	–	**4.5**
Net assets/(liabilities)	**58.1**	**25.6**	**218.1**	**(65.1)**	**339.4**	**576.1**
Other information						
Inter-segmental revenue[6]	–	8.4	1.8	115.7	17.0	**142.9**
Capital expenditure	4.9	0.2	2.5	2.3	4.2	**14.1**
Depreciation of property, plant and equipment	–	(0.3)	(1.9)	(13.7)	(4.9)	**(20.8)**
Amortisation of computer software	–	–	(0.5)	–	(5.8)	**(6.3)**
Geographical split of Revenue						
United Kingdom	168.9	352.9	1,649.8	1,547.8	–	**3,719.4**
Americas	–	–	21.0	–	–	**21.0**
Middle East	–	–	168.2	–	–	**168.2**
Far East & Australia	–	–	61.8	108.3	–	**170.1**
Total (continuing operations)	**168.9**	**352.9**	**1,900.8**	**1,656.1**	**–**	**4,078.7**

1 Restated to reclassify Biogen as discontinued.
2 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting as discontinued.
3 Revenue is stated after the exclusion of inter-segmental revenue.
4 Interest was (charged)/credited to the divisions at a notional rate of 4.0%.
5 Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest bearing inter-company loans.
6 Inter-segmental pricing is determined on an arm's length basis.

3 Profit for the year

Profit/(loss) from operations is stated after charging/(crediting):

	2017 £m	2016 £m
Auditors' remuneration:		
Fees payable for the audit of the parent company and consolidated financial statements	**0.2**	0.2
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**1.1**	1.2
Other services	**0.1**	0.2
Depreciation of property, plant and equipment:		
Owned	**13.7**	15.5
Finance leases	**6.0**	6.3
Loss on sale of property, plant and equipment	**1.1**	3.6
Hire of plant and machinery	**98.9**	110.2
Operating lease rentals:		
Land and buildings	**11.4**	11.0
Plant and machinery	**36.2**	28.5
Research and Development Expenditure Credit receivable	**(4.0)**	(4.2)

The Auditors' remuneration relate to amounts paid to PricewaterhouseCoopers LLP.

A summary of other services provided by PricewaterhouseCoopers LLP during the year is provided on page 78.

4 Non-underlying items[1]

Profit/(loss) before taxation is stated after charging:

	2017 £m	2016[2] £m
Portfolio simplification – closure of businesses		
Closure of Hong Kong operations and related contracts	**(26.3)**	–
Closure of Caribbean operations and related contract final accounts	**(60.4)**	(23.1)
Impairment of UK Mining business	**–**	(10.6)
Portfolio simplification – sale of assets and other M&A activity		
Gain relating to the disposal of Mouchel Consulting	**40.0**	–
Loss on disposal of Biogen (2016: Impairment of investment)	**(7.6)**	(5.0)
Transaction and integration costs following the acquisition of the Mouchel Group	**–**	(49.9)
Other M&A gains, losses and costs (2016: gain on disposal)	**(5.5)**	1.7
Other non-underlying costs		
Provision relating to Environmental Services contracts, recyclate costs, and curtailment of contracts	**(11.1)**	(35.6)
Provision for Health, Safety and Environmental (HSE) incidents arising from revised sentencing guidelines	**(8.0)**	–
Establishment of Cross Keys Homes joint venture	**(2.2)**	–
Pension curtailment gain	**6.0**	–
Construction Workers Compensation Scheme and related costs	**–**	(4.5)
Total other non-underlying items	**(75.1)**	(127.0)
Amortisation of intangible contract rights	**(22.3)**	(21.5)
Financing costs	**(2.9)**	(2.8)
Total non-underlying items	**(100.3)**	(151.3)
Associated tax credit	**12.0**	32.1
Charged against profit/(loss) for the year	**(88.3)**	(119.2)

1 Exceptional items.

2 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

4 Non-underlying items[1] continued

Portfolio simplification – closure of businesses

The ongoing programme of portfolio simplification, including the wind down and closure of the Hong Kong and Caribbean businesses and related final accounts contract settlements, resulted in costs of £86.7m. The single remaining contract in the Caribbean is nearing completion. The final contract in Hong Kong is complete with the final account in the final stages of negotiation. The prior year's charge included a £10.6m impairment of the UK Mining business which the Group is in the process of winding down and, consequently, the results are presented as continuing but non-underlying. As a result of the charge in the prior year, the result of the mining operations in 2017 was nil.

Portfolio simplification – sale of assets and other M&A activity

The disposal of Mouchel Consulting in October 2016 generated a profit on sale of £40.0m and net cash proceeds of £58.9m. Biogen Holdings Limited was sold in April 2017 generating a loss of £7.6m and net cash proceeds of £9.7m, following an impairment charge of £5.0m in the prior year. The integration of Mouchel is complete and consequently there are no further costs of acquisition or integration in the current year (2016: £49.9m). Other minor M&A activity took place during the year, including the sale of mining operations in Saudi Arabia, resulting in a total charge of £3.8m and £1.6m of transaction costs relating to the McNicholas acquisition, which took place post year end (2016: gain on sale of Kier FPS Limited: £1.7m).

Other non-underlying costs

The Group continues to work through the legacy contract issues in the Environmental Services business against a backdrop of recyclate pricing pressure. As a result of exiting one contract four years early and the current year impact of reduced recyclate income, a further charge of £11.1m has been taken. The prior year charge of £35.6m similarly comprised of both contract costs and recyclate price impact.

A provision of £8.0m has been made for a potential increase in Health & Safety Executive fines arising from revised sentencing guidelines. The establishment of the Cross Keys Homes joint venture in March 2017 resulted in initial costs of £2.2m. Closure of acquired Mouchel Pension schemes to future accrual has resulted in a one-off pension curtailment gain of £6.0m.

Further details on amortisation of intangible contract rights and financing costs are given in note 12 and note 5.

1 Exceptional items.

5 Finance income and costs – continuing operations

			2017			2016
	Underlying £m	**Non-underlying[2] £m**	**Total £m**	Underlying £m	Non-underlying[2,3] £m	Total £m
Finance income						
Interest receivable on bank deposits	**1.0**	**–**	**1.0**	0.5	–	0.5
Interest receivable on loans to joint ventures	**0.8**	**–**	**0.8**	0.3	–	0.3
	1.8	**–**	**1.8**	0.8	–	0.8
Finance costs						
Interest payable and fees on bank overdrafts and loans	**(2.1)**	**–**	**(2.1)**	(0.6)	–	(0.6)
Interest payable on borrowings	**(16.0)**	**(0.4)**	**(16.4)**	(17.7)	(0.4)	(18.1)
Interest payable to joint ventures	**–**	**–**	**–**	(0.2)	–	(0.2)
Interest payable on finance leases	**(0.6)**	**–**	**(0.6)**	(1.4)	–	(1.4)
Discount unwind	**(0.6)**	**(2.5)**	**(3.1)**	–	(2.4)	(2.4)
Net interest on net defined benefit obligation	**(2.0)**	**–**	**(2.0)**	(5.6)	–	(5.6)
Foreign exchange losses on foreign denominated borrowings	**(4.2)**	**–**	**(4.2)**	(17.7)	–	(17.7)
Fair value gain on cash flow hedges recycled from Other Comprehensive Income	**4.2**	**–**	**4.2**	17.7	–	17.7
	(21.3)	**(2.9)**	**(24.2)**	(25.5)	(2.8)	(28.3)
Net finance costs	**(19.5)**	**(2.9)**	**(22.4)**	(24.7)	(2.8)	(27.5)

2 Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition and interest on UK Mining loan.

3 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

6 Information relating to employees

	Note	2017 No.	2016[1] No.
Monthly average number of people employed during the year including Executive Directors was:			
United Kingdom		**15,673**	16,407
Rest of world		**2,267**	2,040
		17,940	18,447
		£m	£m
Group staff costs are as follows:			
United Kingdom		**782.9**	790.3
Rest of world		**68.9**	56.8
		851.8	847.1
Comprising:			
Wages and salaries		**732.3**	712.1
Social security costs		**76.1**	77.3
Defined benefit pension scheme costs (2017 includes curtailment gain of £6.0m)	8	**(1.2)**	8.9
Contributions to defined contribution pension schemes	8	**41.9**	43.2
Share-based payments charge	25	**2.7**	5.6
		851.8	847.1

[1] Prior year numbers have been restated to reflect Mouchel Consulting as discontinued for comparability.

7 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 82 to 101 (inclusive).

8 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as described below.

Kier Group scheme

This is the principal scheme and includes a defined benefit section and a defined contribution section. The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers.

The defined benefit section of the scheme was closed to new entrants on 1 January 2002; existing members continued to accrue benefits for service until the scheme was closed to future accrual on 28 February 2015.

The contributions paid during the year were £16.9m (2016: £15.5m) which included contributions of £15.5m (2016: £15.5m) to fund the past service deficit.

Going forward, contributions will include an allowance for funding the past service deficit identified at the 2016 valuation date. The Group expects to make contributions of £12.8m for funding the past service deficit and ongoing scheme administration costs in the year to 30 June 2018.

The Pension Protection Fund levy is payable in addition to the above contributions.

The scheme as at 30 June 2017 has 2,838 deferred members and 2,803 retirees.

Other defined benefit schemes

Acquired with the May Gurney Group

The May Gurney defined benefit scheme was acquired with May Gurney in the year to 30 June 2014. This defined benefit scheme has closed to future accrual and the deficit contributions payable in the period to 30 June 2017 amounted to £2.1m (2016: £1.9m). The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions and holding the assets, and delegate day-to-day decisions to independent professional investment managers.

An actuarial valuation of the May Gurney scheme was undertaken by the trustees' independent actuaries as at 31 March 2014 using the projected unit method. The market value of the scheme's assets at that date was £62.0m which represented approximately 83% of the benefits that had accrued to members at that date, after allowing for future increases in pensionable salaries. Deficit contributions for the financial year to 30 June 2018 of £2.4m have been agreed with the trustees.

The scheme as at 30 June 2017 has 365 deferred members and 274 retirees.

Acquired with the Mouchel Group

The Group acquired a number of defined benefit pension schemes with the Mouchel Group. The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions and holding the assets, and delegate day-to-day decisions to independent professional investment managers.

8 Retirement benefit obligations continued

These schemes were closed to new entrants in 2001. Other than the 'public sector comparable' parts, the Mouchel schemes were closed to future accrual in 2010. The remaining parts of most of the Mouchel schemes were closed to future accrual in the current year, resulting in a total curtailment gain of £6.0m. A single 'public sector comparable' scheme remains open to future accrual. There is a deficit recovery plan in place for the Mouchel schemes, requiring deficit contributions of £8.6m in the year to 30 June 2018.

The contributions paid during the year were £12.3m (2016: £9.7m) which included contributions of £10.7m (2016: £8.0m) to fund the past service deficit.

In total, the schemes as at 30 June 2017 have 18 active members, 1,994 deferred members and 1,444 retirees.

The Mouchel schemes were formally valued by the trustees' independent actuaries as at 31 March 2016.

Other defined contribution schemes

Contributions are also made to a number of other defined contribution arrangements. The Group paid contributions of £41.9m (2016: £43.2m) during the year to these arrangements.

The Group also makes contributions to local government defined benefit pension schemes in respect of certain employees who have transferred to the Group under TUPE transfer arrangements. The Group is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and consequently the pension costs for these schemes are treated as if they were defined contribution schemes.

IAS19 'Employee Benefits' disclosures

The Group recognises any actuarial gains or losses through the statement of comprehensive income as required under IAS19.

The principal assumptions used by the independent qualified actuaries were:

Kier Group scheme

	2017 %	2016 %
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.3**	2.8
Discount rate	**2.7**	2.8
Inflation rate (Retail Price Index (RPI))	**3.2**	2.8
Inflation rate (Consumer Price Index (CPI))	**2.1**	1.7

The mortality assumptions are that life expectancy from age 60 is currently 27.3 years for a man and 29.4 years for a woman but is expected to increase to 28.7 years for future male and 31.0 years for future female pensioners who will reach the age of 60 in 2037.

	Value	
	2017 £m	2016 £m
Equities, property and other return-seeking assets	**711.0**	684.0
Government bonds, cash, swaps and collateral	**397.4**	381.4
Total market value of assets	**1,108.4**	1,065.4
Present value of liabilities	**(1,139.5)**	(1,088.9)
Deficit	**(31.1)**	(23.5)
Related deferred tax asset	**5.3**	4.2
Net pension liability	**(25.8)**	(19.3)

May Gurney defined benefit schemes

	2017 %	2016 %
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.3**	2.8
Discount rate	**2.7**	2.8
Inflation rate (RPI)	**3.2**	2.8
Inflation rate (CPI)	**2.1**	1.7

The mortality assumptions are that life expectancy from age 60 is currently 26.5 years for a man and 28.8 years for a woman but is expected to increase to 28.1 years for future male and 30.5 years for future female pensioners who will reach the age of 60 in 2037.

	Value	
	2017 £m	2016 £m
Equities, property and other return-seeking assets	**53.4**	28.7
Government bonds, cash, swaps and collateral	**23.5**	43.7
Total market value of assets	**76.9**	72.4
Present value of liabilities	**(82.8)**	(78.4)
Deficit	**(5.9)**	(6.0)
Related deferred tax asset	**1.0**	1.1
Net pension liability	**(4.9)**	(4.9)

Mouchel defined benefit schemes

	2017 %	2016 %
Rate of general increases in pensionable salaries	**3.2**	2.8
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.2**	1.9
Discount rate	**2.7**	2.8
Inflation rate (RPI)	**3.2**	2.8
Inflation rate (CPI)	**2.1**	1.7

The mortality assumptions are that life expectancy from age 60 is currently 27.0 years for a man and 29.1 years for a woman but is expected to increase to 28.8 years for future male and 31.1 years for future female pensioners who will reach the age of 60 in 2037.

	Value	
	2017 £m	2016 £m
Land	**17.3**	16.2
Equities, property and other return-seeking assets	**390.3**	364.3
Government bonds, cash, swaps and collateral	**43.9**	42.3
Total market value of assets	**451.5**	422.8
Present value of liabilities	**(499.1)**	(481.1)
Deficit	**(47.6)**	(58.3)
Related deferred tax asset	**8.1**	10.5
Net pension liability	**(39.5)**	(47.8)

8 Retirement benefit obligations continued

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2017				2016			
	Kier Group £m	**May Gurney £m**	**Mouchel £m**	**Total £m**	Kier Group £m	May Gurney £m	Mouchel £m	Total £m
(Charged)/credited to operating profit in the income statement								
Current service cost	**–**	**–**	**(0.5)**	**(0.5)**	–	–	(0.9)	(0.9)
Administration expenses	**(1.0)**	**(0.4)**	**(0.9)**	**(2.3)**	(0.9)	(0.3)	(1.2)	(2.4)
Past service cost (including curtailment gain)	**–**	**–**	**6.0**	**6.0**	–	–	–	–
Net interest on net defined benefit obligation	**(0.5)**	**(0.1)**	**(1.4)**	**(2.0)**	(2.7)	(0.1)	(2.8)	(5.6)
Pension (expense)/income recognised in the income statement	**(1.5)**	**(0.5)**	**3.2**	**1.2**	(3.6)	(0.4)	(4.9)	(8.9)
Re-measurement in other comprehensive income								
Actual return in excess of that recognised in net interest	**46.7**	**4.3**	**20.9**	**71.9**	145.1	4.5	60.6	210.2
Actuarial losses due to changes in financial assumptions	**(85.6)**	**(5.8)**	**(34.5)**	**(125.9)**	(105.3)	(8.5)	(48.8)	(162.6)
Actuarial gains due to changes in demographic assumptions	**15.9**	**–**	**8.7**	**24.6**	–	–	–	–
Actuarial gains due to liability experience	**–**	**–**	**0.1**	**0.1**	–	–	–	–
Total amount recognised in full	**(23.0)**	**(1.5)**	**(4.8)**	**(29.3)**	39.8	(4.0)	11.8	47.6
Changes in the fair value of scheme assets								
Fair value at 1 July	**1,065.4**	**72.4**	**422.8**	**1,560.6**	919.4	66.4	356.3	1,342.1
Interest income on scheme assets	**29.3**	**2.0**	**11.8**	**43.1**	35.2	2.6	13.8	51.6
Re-measurement gains on scheme assets	**46.7**	**4.3**	**20.9**	**71.9**	145.1	4.5	60.6	210.2
Contributions by the employer	**16.9**	**2.1**	**12.3**	**31.3**	15.5	1.9	9.7	27.1
Contributions by scheme participants	**–**	**–**	**–**	**–**	–	–	0.3	0.3
Net benefits paid out	**(48.9)**	**(3.5)**	**(15.4)**	**(67.8)**	(48.9)	(2.7)	(16.7)	(68.3)
Administration expenses	**(1.0)**	**(0.4)**	**(0.9)**	**(2.3)**	(0.9)	(0.3)	(1.2)	(2.4)
Fair value at 30 June	**1,108.4**	**76.9**	**451.5**	**1,636.8**	1,065.4	72.4	422.8	1,560.6
Changes in the present value of the defined benefit obligation								
Fair value at 1 July	**(1,088.9)**	**(78.4)**	**(481.1)**	**(1,648.4)**	(994.6)	(69.9)	(431.2)	(1,495.7)
Current service cost	**–**	**–**	**(0.5)**	**(0.5)**	–	–	(0.9)	(0.9)
Interest expense on scheme liabilities	**(29.8)**	**(2.1)**	**(13.2)**	**(45.1)**	(37.9)	(2.7)	(16.5)	(57.1)
Past service cost	**–**	**–**	**6.0**	**6.0**	–	–	–	–
Actuarial losses due to changes in financial assumptions	**(85.6)**	**(5.8)**	**(34.5)**	**(125.9)**	(105.3)	(8.5)	(48.8)	(162.6)
Actuarial gains due to changes in demographic assumptions	**15.9**	**–**	**8.7**	**24.6**	–	–	–	–
Actuarial gains due to liability experience	**–**	**–**	**0.1**	**0.1**	–	–	–	–
Contributions by scheme participants	**–**	**–**	**–**	**–**	–	–	(0.2)	(0.2)
Net benefits paid out	**48.9**	**3.5**	**15.4**	**67.8**	48.9	2.7	16.5	68.1
Fair value at 30 June	**(1,139.5)**	**(82.8)**	**(499.1)**	**(1,721.4)**	(1,088.9)	(78.4)	(481.1)	(1,648.4)
Amounts included in the balance sheet								
Fair value of scheme assets	**1,108.4**	**76.9**	**451.5**	**1,636.8**	1,065.4	72.4	422.8	1,560.6
Net present value of the defined benefit obligation	**(1,139.5)**	**(82.8)**	**(499.1)**	**(1,721.4)**	(1,088.9)	(78.4)	(481.1)	(1,648.4)
Net deficit	**(31.1)**	**(5.9)**	**(47.6)**	**(84.6)**	(23.5)	(6.0)	(58.3)	(87.8)
Related deferred tax asset	**5.3**	**1.0**	**8.1**	**14.4**	4.2	1.1	10.5	15.8
Net pension liability	**(25.8)**	**(4.9)**	**(39.5)**	**(70.2)**	(19.3)	(4.9)	(47.8)	(72.0)

History of experience gains and losses for defined benefit schemes in aggregate:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Fair value of scheme assets	**1,636.8**	1,560.6	1,342.1	911.7	966.6
Net present value of the defined benefit obligation	**(1,721.4)**	(1,648.4)	(1,495.7)	(971.5)	(1,016.3)
Net deficit	**(84.6)**	(87.8)	(153.6)	(59.8)	(49.7)
Related deferred tax asset	**14.4**	15.8	30.7	11.9	11.4
Net pension liability	**(70.2)**	(72.0)	(122.9)	(47.9)	(38.3)
Difference between expected and actual return on scheme assets	**71.9**	210.2	66.3	44.0	45.7
Experience gains on scheme liabilities	**0.1**	–	4.9	8.7	0.7

Risk exposure

As IAS 19 actual assumptions are driven by market conditions, there is a risk that significant changes in financial market conditions could lead to volatility in the defined benefit obligation disclosed in the balance sheet from year to year. In addition, the asset position may also be volatile as it will be influenced by changes in market conditions. However, the risk of significant changes to the overall balance sheet position has been mitigated to an extent due to the asset hedging strategies in place for the schemes.

Pension sensitivity

The following tables show the change in deficit arising from a change in the significant actuarial assumptions used to determine the retirement benefits obligations:

Kier Group scheme:

	2017		2016	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	**45.4**	**(48.2)**	43.7	(46.4)
Inflation rate (+/-0.25%)	**(43.2)**	**41.5**	(41.6)	40.7
Increase in life expectancy (+/-1 year)	**(36.1)**	**36.3**	(32.9)	32.9

May Gurney defined benefit schemes:

	2017		2016	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	**3.5**	**(3.7)**	3.3	(3.5)
Inflation rate (+/-0.25%)	**(3.3)**	**3.2**	(3.2)	3.0
Increase in life expectancy (+/-1 year)	**(2.3)**	**2.3**	(2.1)	2.1

Mouchel defined benefit schemes:

	2017		2016	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/+1 year £m
Discount rate (+/-0.25%)	**21.3**	**(22.5)**	20.8	(22.2)
Inflation rate (+/-0.25%)	**(22.4)**	**21.2**	(22.1)	20.8
Increase in life expectancy (+/-1 year)	**(14.2)**	**14.2**	(13.1)	13.1

The sensitivity analyses above have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period and may not be representative of the actual change, which is based on a change in a key assumption while holding all other assumptions constant. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous period.

9 Taxation

(a) Recognised in the income statement

	2017			2016[2]		
	Underlying items[1] £m	Non-underlying items (note 4) £m	Total £m	Underlying items[1] £m	Non-underlying items (note 4) £m	Total £m
Current tax expense/(credit)						
UK corporation tax	**14.1**	**(10.9)**	**3.2**	20.7	(25.2)	(4.5)
Adjustments in respect of prior years	**2.1**	**–**	**2.1**	3.5	–	3.5
Total current tax	**16.2**	**(10.9)**	**5.3**	24.2	(25.2)	(1.0)
Deferred tax expense/(credit)						
Origination and reversal of temporary differences	**8.3**	**(1.1)**	**7.2**	1.6	(3.8)	(2.2)
Adjustments in respect of prior years	**0.2**	**–**	**0.2**	(4.9)	(3.1)	(8.0)
Rate change effect on deferred tax	**(2.8)**	**–**	**(2.8)**	–	–	–
Total deferred tax	**5.7**	**(1.1)**	**4.6**	(3.3)	(6.9)	(10.2)
Total tax charge/(credit) in the income statement	**21.9**	**(12.0)**	**9.9**	20.9	(32.1)	(11.2)
Reconciliation of effective tax rate						
Profit/(loss) before tax	**126.1**	**(100.3)**	**25.8**	116.4	(151.3)	(34.9)
Add: tax on joint ventures included above	**0.9**	**–**	**0.9**	0.4	–	0.4
Adjusted profit/(loss) before tax	**127.0**	**(100.3)**	**26.7**	116.8	(151.3)	(34.5)
Income tax at UK corporation tax rate of 19.75% (2016: 20.0%)	**25.1**	**(19.8)**	**5.3**	23.4	(30.3)	(6.9)
Non-deductible expenses and unusable tax losses	**1.8**	**16.5**	**18.3**	0.8	1.4	2.2
Effect of change in UK corporation tax rate	**(2.7)**	**–**	**(2.7)**	–	–	–
Share-based payment deduction	**(0.5)**	**–**	**(0.5)**	–	–	–
Capital gains not taxed	**–**	**(8.7)**	**(8.7)**	(0.5)	–	(0.5)
Utilisation of tax losses	**(3.2)**	**–**	**(3.2)**	(1.0)	–	(1.0)
Adjustments in respect of prior years	**2.3**	**–**	**2.3**	(1.4)	(3.2)	(4.6)
Total tax (including joint ventures)	**22.8**	**(12.0)**	**10.8**	21.3	(32.1)	(10.8)
Tax on joint ventures	**(0.9)**	**–**	**(0.9)**	(0.4)	–	(0.4)
Group tax charge/(credit)	**21.9**	**(12.0)**	**9.9**	20.9	(32.1)	(11.2)

1 Stated before non-underlying items (see note 4).
2 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

Non-underlying items includes significant one off costs related to restructuring, disposals, acquisitions and business closures. Amortisation disclosed as non-underlying separately relates to the amortisation of contract right costs held as intangibles on the balance sheet.

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. The Group does not have an aggressive tax policy and since 1 July 2012 Kier has not entered into any tax avoidance schemes which were or should have been notified under the Disclosure of Tax Avoidance Scheme (DOTAS) rules.

The tax charge before non-underlying items and amortisation of contract rights of £21.9m (2016: £20.9m) shown in the table above equates to an effective tax rate of 17.4% (2016: 18.0%) on adjusted profit before tax of £127.0m (2016: £116.8m). This effective rate is lower than the standard rate of corporation tax of 19.75% (2016: 20.00%) due to a number of items shown in the table above. The non-deductible expenses included in underlying mainly relate to depreciation on non-qualifying assets.

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group’s employee Save As You Earn Scheme and Long Term Incentive Plan.

The net charge adjustment of £2.3m (2016: credit of £1.4m) in respect of prior years’ results arise from differences between the estimates of taxation included in the previous year’s financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

(b) Recognised in the cash flow statement

The cash flow statement shows payments of £3.8m during the year (2016: £1.8m).

(c) Recognised in the statement of comprehensive income

	2017 £m	2016 £m
Deferred tax (credit)/expense (including effect of change in tax rate)		
Share of fair value movements on joint venture cash flow hedging instruments	**(0.4)**	–
Fair value movements on cash flow hedging instruments	**(0.4)**	0.2
Actuarial (losses)/gains on defined benefit pension schemes	**(2.1)**	9.1
Total tax (credit)/charge in the statement of comprehensive income	**(2.9)**	9.3

(d) Factors that may affect future tax charges

The deferred tax balance as at the year end has been recognised at 17.0% which is the enacted corporation tax rate that will be effective from 1 April 2020.

(e) Tax losses

At the balance sheet date the Group had unused tax losses of £161.6m (2016: £172.5m) available for offset against future profits. A deferred tax asset has been recognised in respect of £10.6m (2016: £23.3m) of income tax losses.

No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 Dividends

Amounts recognised as distributions to owners of the parent in the year:

	2017 £m	2016 £m
Final dividend for the year ended 30 June 2016 of 43.0 pence (2015: 36.0 pence)	**41.2**	34.2
Interim dividend for the year ended 30 June 2017 of 22.5 pence (2016: 21.5 pence)	**21.8**	20.5
	63.0	54.7

The proposed final dividend of 45.0 pence (2016: 43.0 pence) bringing the total dividend for the year to 67.5 pence (2016: 64.5 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling circa £43.7m will be paid on 1 December 2017 to shareholders on the register at the close of business on 29 September 2017. A DRIP 'dividend reinvestment plan' alternative will be offered.

11 Earnings per share

A reconciliation of profit and earnings/(loss) per share, as reported in the income statement, to underlying profit and earnings per share is set out below. The adjustments are made to illustrate the impact of non-underlying items.

	2017		2016[1]	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Earnings/(loss)				
Continuing operations				
Earnings/(loss) (after tax and minority interests), being net profits/(losses) attributable to equity holders of the parent	**14.8**	**14.8**	(24.5)	(24.5)
Impact of non-underlying items net of tax:				
Amortisation of intangible assets – net of tax credit of £4.4m (2016: £3.9m)	**17.9**	**17.9**	17.6	17.6
Acquisition discount unwind[2] – net of tax credit of £0.5m (2016: £0.4m)	**2.0**	**2.0**	2.0	2.0
Other non-underlying items – net of tax credit of £7.1m (2016: £27.8m)	**68.4**	**68.4**	99.6	99.6
Earnings from continuing operations	**103.1**	**103.1**	94.7	94.7
Discontinued operations				
(Loss)/earnings (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	**(4.1)**	**(4.1)**	6.9	6.9
(Loss)/earnings from discontinued operations	**(4.1)**	**(4.1)**	6.9	6.9

	million	**million**	million	million
Weighted average number of shares used for earnings per share	**96.5**	**97.1**	95.2	95.2

Earnings/(loss) per share				
Continuing operations	**pence**	**pence**	pence	pence
Earnings/(loss) (after tax and minority interests), being net profits/(losses) attributable to equity holders of the parent	**15.3**	**15.2**	(25.7)	(25.7)
Impact of non-underlying items net of tax:				
Amortisation of intangible assets	**18.5**	**18.4**	18.4	18.4
Acquisition discount unwind	**2.1**	**2.1**	2.1	2.1
Other non-underlying items	**70.9**	**70.4**	104.7	104.7
Earnings from continuing operations	**106.8**	**106.1**	99.5	99.5
Discontinued operations				
(Loss)/earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**(4.2)**	**(4.2)**	7.2	7.2
(Loss)/earnings from discontinued operations	**(4.2)**	**(4.2)**	7.2	7.2
Total earnings/(loss) per share				
Statutory	**11.1**	**11.0**	(18.5)	(18.5)
Underlying	**102.6**	**101.9**	106.7	106.7

1 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen operations as discontinued.
2 Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition and interest on UK Mining loan.

12 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software[1] £m	Total £m
Cost				
At 1 July 2015	522.8	287.1	34.6	**844.5**
Additions	–	0.6	37.5	**38.1**
Disposals	–	(0.8)	(4.7)	**(5.5)**
At 30 June 2016	522.8	286.9	67.4	**877.1**
Additions	–	–	44.4	**44.4**
Disposals	(5.4)	(3.5)	(14.7)	**(23.6)**
Transfer from tangible fixed assets	–	–	15.1	**15.1**
At 30 June 2017	**517.4**	**283.4**	**112.2**	**913.0**
Accumulated amortisation				
At 1 July 2015	–	(47.4)	(7.1)	**(54.5)**
Charge for the year	–	(21.5)	(6.3)	**(27.8)**
Disposals	–	–	1.6	**1.6**
Impairment	–	(1.8)	–	**(1.8)**
At 30 June 2016	–	(70.7)	(11.8)	**(82.5)**
Charge for the year	–	(22.3)	(7.8)	**(30.1)**
Disposals	–	0.3	14.5	**14.8**
Transfer from tangible fixed asset	–	–	(12.4)	**(12.4)**
At 30 June 2017	**–**	**(92.7)**	**(17.5)**	**(110.2)**
Net book value				
At 30 June 2017	**517.4**	**190.7**	**94.7**	**802.8**
At 30 June 2016	522.8	216.2	55.6	794.6

[1] £67.0m largely relating to the Group's ERP implementation is under construction and not being amortised (2016: £42.0m).

Goodwill largely relates to the Services cash generating unit ('CGU'). This has been built up by the acquisition of MRBL Limited (Mouchel Group) (£309.3m), May Gurney Integrated Services PLC (£194.7m), Kier Partnership Homes Limited (£5.2m), Pure Recycling Limited (£4.8m), Beco Limited (£2.6m) and Southdale (£0.8m). These balances have been subject to an annual impairment review based upon the projected profits of each CGU.

The cost of contract rights relates to:

- The acquisition of the businesses and assets of the construction and business services operations of Sheffield City Council (£21.3m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£7.2m). These contracts are in partnership with the respective councils that have retained a participatory ownership interest and the rights for a minority share in the profits. These profit shares are reflected in the income statement as minority interests. The amounts for the year to 30 June 2017 are: Stoke-on-Trent City Council £0.5m (2016: £0.5m), North Tyneside Council £0.2m (2016: £0.2m), Unity Partnership £0.4m (2016: £nil);
- The acquisition of Pure Recycling Limited (£2.0m) and Stewart Milne (£1.0m);
- The acquisition of a commercial refuse collections business from Wealdon District Council (£3.6m);
- The acquisition of May Gurney Integrated Services plc (£106.7m); and
- The acquisition of MRBL Limited (Mouchel Group) (£138.6m).

Contract rights on May Gurney and Mouchel are amortised on a straight-line basis over the expected total contract duration. All other contract rights are amortised on a straight-line basis over the remaining contract life.

12 Intangible assets continued

Carrying amounts of goodwill and intangible contract rights by CGU

	2017			2016		
	Goodwill £m	Intangible contract rights £m	Total £m	Goodwill £m	Intangible contract rights £m	Total £m
Property	**0.1**	**0.5**	**0.6**	0.1	0.6	0.7
Residential	**6.0**	**–**	**6.0**	6.0	–	6.0
Construction	**12.5**	**5.3**	**17.8**	12.5	5.7	18.2
Services	**498.8**	**184.9**	**683.7**	504.2	209.9	714.1
	517.4	**190.7**	**708.1**	522.8	216.2	739.0

For impairment testing purposes, the goodwill has been allocated to the above four CGUs. The recoverable amount of the goodwill and intangibles has been determined based on value in use calculations, which use cash flow projections based on the Group's forecasts approved by management, covering a three-year period.

The resulting cash flows are discounted to present value, with the discount rate used in the value in use calculations based on the Group's weighted average cost of capital, adjusted as necessary to reflect the risk associated with the assets being tested.

The key assumptions in the value in use calculations are the forecast revenues and gross margins during the forecast period and the discount rates applied to future cash flows. Cash flows for periods beyond those forecast have a terminal growth rate assumption applied.

Significant headroom exists in all CGUs and management considers that any reasonably possible change in the key assumptions would not lead to an impairment being recognised.

Services CGU

A revenue growth rate of 1.9% and a fixed operating margin of 5.0% have been applied to the Services CGU cash flows into perpetuity. These assumptions are in line with current trading and current forecasts of UK GDP growth rate. The pre-tax discount rate used is 9.2% (2016: 9.3%).

Based on the value in use calculation, these assumptions derived a recoverable amount for the Services CGU that is £510.0m above the carrying value of CGU assets.

The Services CGU impairment review is sensitive to changes in the key assumptions: discount rate, revenue growth rate and the operating margin, although management do not consider that any reasonable possible change in any single assumption would give rise to an impairment of the carrying value of goodwill and intangibles. The assumptions would have to change as follows for any single assumption change to bring headroom down to £nil:

- Discount rate – increase from 9.2% to 14.0%;
- Growth rate – reduce from positive 1.9% to negative 6.1%; and
- Underlying operating margin – reduce from 5.0% to 2.2%.

13 Property, plant and equipment

		Land and buildings £m	Plant and equipment £m	Mining £m	Total £m
Cost					
At 1 July 2015		71.2	130.1	–	**201.3**
Additions		7.1	7.0	–	**14.1**
Disposals		(11.0)	(21.0)	–	**(32.0)**
Currency realignment		(0.2)	1.3	–	**1.1**
At 30 June 2016		67.1	117.4	–	**184.5**
Additions		0.4	10.6	4.8	**15.8**
Disposals		(6.5)	(27.9)	–	**(34.4)**
Currency realignment		–	0.1	–	**0.1**
Transfer to intangible fixed assets		–	(15.1)	–	**(15.1)**
Transfer from assets held for sale		5.0	–	–	**5.0**
At 30 June 2017		66.0	85.1	4.8	**155.9**
Accumulated depreciation					
At 1 July 2015		(13.5)	(66.9)	–	**(80.4)**
Charge for the year	– continuing operation	(1.8)	(19.0)	–	**(20.8)**
	– discontinued operation	–	(1.0)	–	**(1.0)**
Disposals		0.3	17.6	–	**17.9**
Currency realignment		–	(0.9)	–	**(0.9)**
At 30 June 2016		(15.0)	(70.2)	–	**(85.2)**
Charge for the year	– continuing operations	(3.0)	(16.6)	–	**(19.6)**
	– discontinued operations	–	(0.1)	–	**(0.1)**
Disposals		1.3	25.8	–	**27.1**
Currency realignment		–	(0.1)	–	**(0.1)**
Transfer to intangible fixed assets		–	12.4	–	**12.4**
At 30 June 2017		(16.7)	(48.8)	–	**(65.5)**
Net book value					
At 30 June 2017		**49.3**	**36.3**	**4.8**	**90.4**
At 30 June 2016		52.1	47.2	–	99.3

The net book value of plant and equipment includes an amount of £13.5m (2016: £18.6m) in respect of assets held under finance leases (see note 21).

As part of the ongoing ERP implementation, the Group has conducted a detailed review of its property, plant and equipment and as a consequence has written off £13.4m of fully depreciated historic assets that are no longer in use and reclassified £15.1m of licences to intangible assets.

14 Investments in and loans to joint ventures

(a) Movements in year

	2017 £m	2016 £m
Investment in joint ventures		
At 1 July	**129.8**	79.4
Additions	**94.6**	62.9
Loan repayments	**(1.3)**	(1.0)
Disposals	**(37.2)**	(17.8)
Impairment	**–**	(5.0)
Share of:		
Operating profit[1]	**26.4**	14.6
Finance costs	**(2.0)**	–
Taxation	**(0.9)**	(0.4)
Post-tax results of joint ventures	**23.5**	14.2
Dividends received	**(23.2)**	(2.8)
Items recognised directly in other comprehensive income:		
Fair value movements in cash flow hedging instruments	**(2.2)**	(0.1)
Deferred tax on fair value movements in cash flow hedging instruments	**0.4**	–
At 30 June	**184.4**	129.8

(b) Analysis of investment in and loans to joint ventures

	2017 £m	2016 £m
Non-current assets		
Property, plant and equipment	**118.2**	101.5
Other non-current assets	**9.6**	18.9
Non-current assets	**127.8**	120.4
Current assets		
Cash and trade receivables	**245.2**	202.2
Current assets	**245.2**	202.2
Total assets	**373.0**	322.6
Current liabilities		
Trade and other payables – current	**(22.2)**	(27.5)
Borrowings – current	**(9.2)**	(1.2)
Current liabilities	**(31.4)**	(28.7)
Non-current liabilities		
Borrowings	**(208.4)**	(226.1)
Financial instruments	**(2.4)**	(0.6)
Deferred tax liabilities	**(0.6)**	(0.1)
Non-current liabilities	**(211.4)**	(226.8)
Total liabilities	**(242.8)**	(255.5)
Net external assets	**130.2**	67.1
Loans provided to joint ventures	**54.2**	62.7
Total investments in and loans to joint ventures	**184.4**	129.8

[1] Including the £1.5m (2016: £nil) share of operating losses from the Biogen joint venture, which is included in discontinued operations (see note 19).

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	2017			2016		
	Borrowing facility £m	**Guarantees £m**	**Drawn at 30 June £m**	Borrowing facility £m	Guarantees £m	Drawn at 30 June £m
Kier Sydenham LP	**44.1**	**7.5**	**44.1**	45.0	7.5	45.0
Biogen (UK) Limited	**–**	**–**	**–**	11.0	11.0	11.0
Kier Reading LLP	**–**	**–**	**–**	18.3	8.0	17.2
Kier Hammersmith Limited	**24.1**	**24.1**	**22.7**	24.1	24.1	12.8
Kier Trade City LLP	**5.1**	**2.2**	**4.6**	23.8	11.1	11.7
Fore UK 1B LP	**–**	**–**	**–**	19.3	19.3	19.3
Tri-link 140 LLP	**5.5**	**5.5**	**4.7**	5.5	5.5	5.5
Kier Foley Street LLP	**–**	**–**	**–**	54.3	5.0	38.9
50 Bothwell Street LLP	**16.5**	**16.5**	**16.5**	–	–	–
Black Rock Devco LLP	**4.6**	**2.0**	**3.3**	–	–	–
KCK Peterborough Devco LLP	**6.7**	**2.0**	**3.0**	–	–	–
	106.6	**59.8**	**98.9**	201.3	91.5	161.4

Other than as disclosed above the liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given in note 31.

15 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year:

	Intangible assets £m	**Property, plant and equipment £m**	**Short-term temporary differences £m**	**Retirement benefit obligations £m**	**Tax losses £m**	**Total £m**
At 1 July 2015	(47.1)	17.1	3.2	30.7	5.1	**9.0**
Credited/(charged) to income statement	8.7	8.3	(0.1)	(5.8)	(0.9)	**10.2**
Transfers	–	–	(2.6)	–	–	**(2.6)**
Charged directly to comprehensive income	–	–	(0.2)	(9.1)	–	**(9.3)**
At 30 June 2016	(38.4)	25.4	0.3	15.8	4.2	**7.3**
Credited/(charged) to income statement	5.9	(1.4)	(3.2)	(3.5)	(2.4)	**(4.6)**
Transfers	–	1.5	4.5	–	–	**6.0**
Credited directly to comprehensive income	–	–	0.8	2.1	–	**2.9**
At 30 June 2017	**(32.5)**	**25.5**	**2.4**	**14.4**	**1.8**	**11.6**

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2017 £m	2016 £m	**2017 £m**	2016 £m	**2017 £m**	2016 £m
Property, plant and equipment	**25.5**	25.7	**–**	(0.3)	**25.5**	25.4
Intangible assets	**–**	–	**(32.5)**	(38.4)	**(32.5)**	(38.4)
Inventories	**–**	0.5	**–**	–	**–**	0.5
Payables	**0.5**	2.6	**–**	(4.6)	**0.5**	(2.0)
Retirement benefit obligations	**14.4**	15.8	**–**	–	**14.4**	15.8
Share-based payments	**1.3**	1.8	**–**	–	**1.3**	1.8
Other short-term timing differences	**0.6**	–	**–**	–	**0.6**	–
Tax losses	**1.8**	4.2	**–**	–	**1.8**	4.2
Total	**44.1**	50.6	**(32.5)**	(43.3)	**11.6**	7.3
Set-off tax	**(32.5)**	(43.3)	**32.5**	43.3	**–**	**–**
Net tax assets	**11.6**	7.3	**–**	**–**	**11.6**	7.3

16 Inventories

	2017 £m	2016 £m
Raw materials and consumables	**18.0**	15.4
Construction contracts in progress (note 17)	**141.4**	184.8
Land and work in progress held for development	**202.1**	276.9
Other work in progress	**232.4**	198.8
	593.9	675.9

17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £9,669.7m (2016: £10,926.8m), less progress billings received and receivable of £9,938.7m (2016: £11,088.3m).

The net balance is analysed into assets and liabilities as follows:

	2017 £m	2016 £m
Inventories – construction contracts in progress	**141.4**	184.8
Trade and other payables – gross amounts due to customers (note 22)	**(410.4)**	(346.3)
	(269.0)	(161.5)

18 Trade and other receivables

	2017 £m	2016 £m
Current:		
Trade receivables	**220.1**	213.4
Construction contract retentions	**79.4**	81.2
Amounts receivable from joint ventures	**2.9**	7.8
Other receivables	**78.2**	78.5
Prepayments and accrued income	**132.8**	135.4
Other taxation and social security	**17.7**	6.7
	531.1	523.0
Non-current:		
Construction contract retentions	**32.1**	25.5
Other receivables	**6.1**	9.2
	38.2	34.7

19 Non-current assets held for sale and discontinued operations

As at 30 June 2016, Kier Minerals Limited (KML) was expected to be sold during the year ended 30 June 2017 and consequently its results were classified as discontinued operations and the assets and liabilities were classified as held for sale. As a sale on acceptable terms could not be agreed, the results of KML have been reclassified as continuing in the current and prior periods and its assets and liabilities have been transferred out of assets held for sale.

During the year ended 30 June 2017, following their sale, the results of the Mouchel Consulting business and Biogen Holdings Limited have been classified as discontinued. Comparative information has been restated accordingly.

(a) Assets of disposal group classified as held for sale

	2017 £m	2016 £m
Property, plant and equipment	–	5.0
Inventory	–	3.6
Other current assets	–	9.6
Total	–	18.2

(b) Liabilities of disposal group classified as held for sale

	2017 £m	2016 £m
Trade and other payables	–	(5.0)
Provisions	–	(8.7)
Total	–	(13.7)
Net assets held for sale	–	4.5

(c) Result of discontinued operations

Mouchel Consulting (subsidiary)

On 12 October 2016, the Group disposed of its investment in Mouchel Limited which, together with its subsidiaries, comprised the Mouchel Consulting business.

The results are as follows:

Result of discontinued operations	**2017 £m**	2016 £m
Revenue	**29.7**	124.4
Operating costs	**(30.0)**	(115.9)
Operating profit	**(0.3)**	8.5
Finance costs	–	–
Profit before tax	**(0.3)**	8.5
Tax	**(2.3)**	(1.6)
(Loss)/profit for the period from discontinued operations	**(2.6)**	6.9

Cash flows from discontinued operations	**2017 £m**	2016 £m
Operating cash flows	**(2.6)**	6.9
Investing cash flows	–	–
Financing cash flows	–	–
Total cash flows	**(2.6)**	6.9

19 Non-current assets held for sale and discontinued operations continued

Biogen Holdings Limited (joint venture)

On 1 April 2017 the Group disposed of its investment in Biogen Holdings Limited.

The results are as follows:

Result of discontinued operations	**2017 £m**	2016 £m
Loss for the period from discontinued operations	**(1.5)**	–

Cash flows from discontinued operations	**Year to 30 June 2017 £m**	Year to 30 June 2016 £m
Operating cash flows	**(1.5)**	–
Investing cash flows	**–**	–
Financing cash flows	**–**	–
Total cash flows	**(1.5)**	–

20 Cash, cash equivalents and borrowings

	2017 £m	2016 £m
Cash and cash equivalents – bank balances and cash in hand	**499.8**	186.7
Borrowings due within one year	**(50.0)**	–
Borrowings due after one year	**(581.8)**	(303.2)
Impact of cross-currency hedging	**21.9**	17.7
Net borrowings	**(110.1)**	(98.8)

Cash and cash equivalents are subject to Group-wide cash pooling arrangements. On a gross basis, cash and cash equivalents were £1,574.3m (2016: £1,263.2m) and overdrafts were £1,074.5m (2016: £1,076.5m).

Cash and cash equivalents include £50.6m (2016: £85.9m) being the Group's share of cash and cash equivalents held by joint operations and £94.0m (2016: £52.1m) of bank balances that are not part of the Group-wide cash pooling arrangement, including £25.9m (2016: £10.6m) held for future payment to designated suppliers.

Information on borrowings is detailed in note 27.

21 Finance lease obligations

	2017			2016		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
At 1 July	**27.7**	**(1.4)**	**26.3**	42.6	(2.0)	40.6
New obligations	**1.8**	**(0.1)**	**1.7**	3.6	(0.5)	3.1
Repayments	**(14.3)**	**0.6**	**(13.7)**	(18.5)	1.1	(17.4)
At 30 June	**15.2**	**(0.9)**	**14.3**	27.7	(1.4)	26.3

Finance lease liabilities are payable as follows:

	2017			2016		
	Future minimum lease payments £m	**Interest £m**	**Present value of minimum lease payments £m**	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	**9.6**	**(0.5)**	**9.1**	14.4	(0.9)	13.5
Between two and five years	**5.3**	**(0.3)**	**5.0**	13.3	(0.5)	12.8
Over five years	**0.3**	**(0.1)**	**0.2**	–	–	–
At 30 June	**15.2**	**(0.9)**	**14.3**	27.7	(1.4)	26.3

22 Trade and other payables

	2017 £m	2016 £m
Current:		
Trade payables	**518.3**	430.8
Sub-contract retentions	**61.5**	54.5
Construction contract balances (note 17)	**410.4**	346.3
Other taxation and social security	**62.7**	61.6
Other payables	**100.0**	102.1
Accruals and deferred income	**262.7**	354.4
Payments received on account	**18.1**	29.8
	1,433.7	1,379.5
Non-current:		
Trade payables	**2.2**	1.1
Sub-contract retentions	**14.4**	12.1
	16.6	13.2

23 Provisions

	2017					2016		
	Insurance claims £m	**Restoration of mining sites £m**	**HSE regulatory £m**	**Other provisions £m**	**Total £m**	Insurance claims £m	Other provisions £m	Total £m
At 1 July	**25.6**	**–**	**–**	**54.9**	**80.5**	22.3	41.5	63.8
Charged to income statement	**18.6**	**–**	**8.0**	**23.5**	**50.1**	13.5	14.4	27.9
Divested	**(2.5)**	**–**	**–**	**(4.9)**	**(7.4)**	–	–	–
Transfers	**–**	**8.7**	**–**	**–**	**8.7**	0.8	1.5	2.3
Utilised	**(20.8)**	**(3.2)**	**(2.9)**	**(28.8)**	**(55.7)**	(11.0)	(5.3)	(16.3)
Unwinding of discount	**–**	**–**	**–**	**3.1**	**3.1**	–	2.8	2.8
At 30 June	**20.9**	**5.5**	**5.1**	**47.8**	**79.3**	25.6	54.9	80.5

Insurance provisions are in respect of legal and other disputes in various Group companies.

Mining provisions of £8.7m, representing the cost of restoration of opencast mining activities, have been transferred from the disposal group (see note 19) following the Group's decision in the year not to exit from its UK Mining operations.

HSE regulatory provisions are in respect of potential fines arising from changes to safety, health and environmental legislation and regulation (see note 4 to the financial statements).

Other provisions primarily represent contractual obligations on cessation of certain contracts and fair value provisions.

It is anticipated that the amounts provided will be utilised as follows:

	2017 £m	2016 £m
Due within one year	**19.0**	22.8
Due after one year	**60.3**	57.7
	79.3	80.5

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain.

Future outflows in respect of other provisions are expected to occur over the next 10 years.

24 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2017 Number	2017 £m	2016 Number	2016 £m
Issued and fully paid ordinary shares of 1 pence each	**97,443,035**	**1.0**	96,067,463	1.0

During the year 1,008,009 shares were issued as a scrip dividend alternative at a premium of £13.6m and 367,563 shares under the Sharesave Scheme at a premium of £3.2m.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedge reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred, net of any related deferred tax.

Translation reserve

This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS 1, this reserve was set to nil at 1 July 2004.

Merger reserve

The merger reserve arose on the shares issued at a premium to acquire May Gurney on 8 July 2013.

25 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2017 were as follows:

Date of grant	Sharesave Scheme 31 Oct 2014	Sharesave Scheme 31 Oct 2015	Sharesave Scheme 31 Oct 2016	LTIP 2015 award 22 Oct 2014	LTIP 2016 award 22 Oct 2015	LTIP 2017 award 21 Oct 2016	**Total**
Awards outstanding at 30 June 2017							
– directors	1,550	3,137	779	131,678	210,163	227,191	**574,498**
– employees	527,341	901,853	648,631	704,938	959,407	1,095,244	**4,837,414**
	528,891	**904,990**	**649,410**	**836,616**	**1,169,570**	**1,322,435**	**5,411,912**
Exercise price (pence)	1,159	1,147	1,155	nil	nil	nil	

Sharesave Scheme

699,380 options were granted in the year (2016: 1,338,394) under the Sharesave Scheme, which are all equity settled. The weighted average market price of Kier Group plc shares at the date of exercise of Sharesave Scheme options was 1,166 pence (2016: 1,124 pence).

Long Term Incentive Plan

Awards made under the scheme are normally able to vest following the third anniversary of the date of the grant. Vesting may be in full or in part (with the balance of the award lapsing) and is subject to the Group achieving specific performance targets. Awards under the LTIP are all equity settled. The market price of Kier Group plc shares at the date of exercise of LTIP options was 1,360 pence (2016: no LTIP options exercised).

The awards which are taken as shares are intended to be satisfied from the following shares held by the Kier Group 1999 Employee Benefit Trust and May Gurney Group Trustees Ltd Employee Share Ownership Plan Trust rather than from the issue of new shares. These shares are accounted for as a deduction from retained earnings.

	2017 Number of shares	2017 Value £m	2016 Number of shares	2016 Value £m
At 1 July	**526,169**	**5.9**	681,503	7.4
Acquired during the year	**87,116**	**1.2**	–	–
Issued in satisfaction of awards and other schemes	**(204,709)**	**(2.6)**	(129,262)	(1.2)
Issued in satisfaction of deferred bonus schemes	**(40,509)**	**(0.5)**	(26,072)	(0.3)
At 30 June	**368,067**	**4.0**	526,169	5.9

The market value of these shares at 30 June 2017 was £4.5m (2016: £5.5m). The dividends on these shares have been waived.

A description of these schemes and the terms and conditions of each scheme are included in the directors' remuneration report on pages 82 to 101.

Value of share schemes

The fair value per option granted has been calculated using the following assumptions. These calculations are based on the Black-Scholes model for all options apart from the total shareholder return (TSR) element of the LTIP which is based on a stochastic model.

Sharesave Scheme

Date of grant	31 October 2014	31 October 2015	31 October 2016
Share price at grant (pence)	1,490	1,377	1,329
Exercise price (pence)	1,159	1,147	1,155
Option life (years)	3.0	3.0	3.0
Expected volatility	27.1%	22.9%	25.5%
Dividend yield	4.8%	4.7%	4.7%
Risk-free interest rate	1.1%	0.9%	0.3%
Value per option (pence)	160.1	222.6	205.8

Long Term Incentive Plan

Date of grant	22 October 2014 (EPS element)	22 October 2014 (TSR element)	22 October 2015 (EPS element)	22 October 2015 (TSR element)	21 October 2016 (EPS & Net Debt:EBITDA element)	21 October 2016 (TSR element)
Share price at grant (pence)	1,519	1,519	1,388	1,388	1,360	1,360
Exercise price	nil	nil	nil	nil	nil	nil
Option life (years)	3.0	3.0	3.0	3.0	3.0	3.0
Expected volatility	n/a	24.6%	n/a	23.3%	n/a	26.5%
Dividend yield	4.7%	4.7%	4.8%	4.8%	4.7%	4.7%
Risk-free interest rate	n/a	1.0%	n/a	0.7%	n/a	0.2%
Value per option (pence)	1,053.0	604.8	1,203.7	801.0	1,182.3	609.1

The value per option represents the fair value of the option less the consideration payable.

The fair value of the TSR element incorporates an assessment of the number of shares that will be awarded, as the performance conditions are market conditions under IFRS 2 'Share-based Payment'.

The performance conditions of the EPS and the net debt to earnings before interest, tax, depreciation and amortisation ratio (Net Debt:EBITDA) elements are non-market conditions under IFRS 2. The fair value therefore does not include an assessment of the number of shares that will be awarded. Instead the amount charged for this element is based on the fair value factored by a 'true-up' for the number of awards that are expected to vest.

The expected volatility is based on historical volatility over the last three years. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

An amount of £2.7m relating to share-based payments has been recognised in the income statement as employee costs (2016: £5.6m). Included in other payables is an amount of £0.7m (2016: £0.8m) relating to provisions for employer's national insurance.

A reconciliation of option movements is shown below:

	2017		2016	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at 1 July	**4,735,719**	**476.8p**	3,897,744	405.8p
Forfeited	**(983,842)**	**472.5p**	(1,190,953)	569.5p
Exercised	**(417,176)**	**478.3p**	(666,626)	795.4p
Granted	**2,077,211**	**388.9p**	2,695,554	278.3p
Outstanding at 30 June	**5,411,912**	**443.7p**	4,735,719	476.8p
Exercisable at 30 June	–	–	176,361	839.0p

The options outstanding at 30 June 2017 have a weighted average remaining contractual life of 1.80 years (2016: 1.84 years).

26 Guarantees and contingent liabilities

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements, including joint operations and joint ventures, entered into in the normal course of business.

During the year, the directors have reviewed the aggregate potential liability which may arise from certain safety, health and environmental incidents which took place before the implementation of relevant sentencing guidelines in February 2016. Following this review, a provision has been made for the directors' current estimate of the financial impact on the Group. For further details, please see note 4 to the financial statements.

27 Financial instruments

Capital risk management

The Group's capital management objectives are: to ensure the Group's ability to continue as a going concern; and to optimise the capital structure in order to minimise the cost of capital; whilst maintaining a strong balance sheet to support business development and tender qualification. The four operating divisions of the Group have complementary capital characteristics, with the Construction division, and to a lesser extent the Services division, generating a net cash surplus, whilst the Property and Residential divisions require net capital to fund developments. The Group's capital management strategy is to use a blend of capital types with different risk, return and maturity profiles to support the operating divisions and deliver the Group's capital management objectives. The Group's overall capital risk management strategy remains unchanged from 2016.

The capital structure of the Group comprises: equity, consisting of share capital, share premium, retained earnings and other reserves as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 20 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions are made with regard to the Group's weighted average cost of capital and typically a pre-tax annualised return of at least 15.0% is required to ensure such investments are value enhancing for shareholders.

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to credit risk, market risk and liquidity risk. The overall aim of the Group's financial risk management policies is to minimise any potential adverse effects on financial performance and net assets.

The Group's treasury team manages the principal financial risks within policies and operating limits approved by the Board. The treasury function is not a profit centre and does not enter into speculative transactions. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates and some commodity prices.

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and interest rate and currency hedges.

Policies and procedures exist to ensure that customers have an appropriate credit history. The Group's most significant clients are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the client.

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within acceptable limits. At the balance sheet date there were no significant concentrations of credit risk.

Trade and other receivables included in the balance sheet are stated net of bad debt provisions which have been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

An analysis of the provision held against trade receivables is set out below:

	2017 £m	2016 £m
Provision as at 1 July	**20.0**	14.3
(Credited)/charged to the income statement	**(0.8)**	5.7
Divested in the year	**(11.0)**	–
Provision as at 30 June	**8.2**	20.0

There were £82.9m (2016: £88.4m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £48.5m (2016: £43.2m) had been received by the end of August 2017. There are no indications as at 30 June 2017 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and un-provided. The proportion of trade receivables at 30 June 2017 that were overdue for payment was 37.8% (2016: 41.7%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction	16 days (2016: 19 days)
Services	14 days (2016: 12 days)

Overall, the Group considers that it is not exposed to significant credit risk.

Market risk

Interest rate risk

The Group has borrowing facilities to finance short-term working capital requirements and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over LIBOR. The Group's borrowings, excluding the effect of derivatives, can be analysed as follows:

	2017 £m	2016 £m
Fixed rate	**288.0**	276.2
Variable rate	**346.5**	30.0
Cost of raising finance	**(2.7)**	(3.0)
	631.8	303.2

In addition, a number of the Group's joint ventures have entered into interest rate swaps where there is significant interest rate risk.

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant. Where significant foreign currency exposures are identified, these are hedged using forward foreign exchange contracts or swaps.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a syndicate of relationship banks and established investors, and in the case of a number of our Loan Notes, in the form of unsecured committed borrowing facilities. The amount of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

On the 6 July 2017 the Group renegotiated the Revolving Credit Facility, extending the renewal date and total facility level. See note 32 for further details.

Derivative financial instruments

During 2013 the Group entered into three cross-currency swaps to hedge the currency risk on a US dollar denominated loan, nominal value US$28.0m. During 2014 the Group entered into four cross-currency swaps to hedge the currency risk on a US dollar denominated loan, nominal value US$116.0m. During 2016 the Group entered into two cross-currency swaps to hedge the currency risk on a Euro denominated loan, nominal value €20.0m, and three interest rate swaps to hedge the interest rate risk on a GBP denominated loan, nominal value £58.5m. During 2017 the Group reduced the value on the HSBC interest rate swap from £15.0m to £10.0m and entered into an additional swap of £12.0m bringing the total value to £65.5m. These swaps continue to meet the criteria for hedge accounting.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, how those cash flows will impact the income statement and the fair value of the related hedging instruments:

		Expected cash flows				
Continuing operations	**Fair value £m**	**Total £m**	**0–1 years £m**	**1–2 years £m**	**2–5 years £m**	**More than 5 years £m**
Cross-currency swaps: asset						
Gross settled inflows		163.1	5.4	5.4	46.1	106.2
Gross settled outflows		(135.6)	(4.6)	(4.6)	(38.9)	(87.5)
	18.9	**27.5**	**0.8**	**0.8**	**7.2**	**18.7**
Interest rate swaps: liability						
Net settled	**(0.3)**	(1.5)	(0.4)	(0.4)	(0.7)	–

In addition to the above, a number of the Group's PFI and property joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 20 and 25 years and are without recourse to the Group. At 30 June 2017 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £82.9m (2016: £121.9m). The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2017 amounted to £6.3m (2016: £8.0m) which, together with the related deferred tax asset of £1.1m (2016: £1.4m), have met the criteria for hedge accounting.

27 Financial instruments continued

These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the joint ventures' bank counterparties using mid-market mark to market valuations for trades between the joint ventures and those counterparties at the close of business on 30 June 2017.

Financial assets

Loans and receivables at amortised cost, cash and cash equivalents:	2017 £m	2016 £m
Cash and cash equivalents	**499.8**	186.7
Trade and other receivables (including £38.2m due after more than one year) – excluding prepayments	**436.5**	422.3
Loans to joint ventures	**54.2**	62.7
	990.5	671.7

Financial liabilities – analysis of maturity dates

At 30 June 2017 the Group had the following financial liabilities at amortised cost together with the maturity profile of their contractual cash flows:

	Continuing operations			
30 June 2017	Trade and other payables[1] £m	Borrowings £m	Finance lease obligations £m	Total £m
Carrying value	**1,369.5**	**631.8**	**14.3**	**2,015.6**
Contractual cash flows				
Less than one year	**1,352.9**	**67.6**	**9.6**	**1,430.1**
One to two years	**16.6**	**17.5**	**4.2**	**38.3**
Two to three years	**–**	**336.3**	**0.6**	**336.9**
Three to four years	**–**	**63.4**	**0.3**	**63.7**
Four to five years	**–**	**28.4**	**0.2**	**28.6**
Over five years	**–**	**141.3**	**0.3**	**141.6**
	1,369.5	**654.5**	**15.2**	**2,039.2**
30 June 2016				
Carrying value	1,301.3	303.2	26.3	1,630.8
Contractual cash flows				
Less than one year	1,288.1	40.8	14.4	1,343.3
One to two years	13.2	10.3	10.0	33.5
Two to three years	–	10.3	3.0	13.3
Three to four years	–	34.8	0.3	35.1
Four to five years	–	67.7	–	67.7
Over five years	–	194.9	–	194.9
	1,301.3	358.8	27.7	1,687.8

1 Trade and other payables exclude other taxes and social security and payments on account.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities, other than for derivative financial instruments.

The Group's derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the company's bank counterparties using mid-market mark to market valuations for trades between the company and those counterparties at the close of business on 30 June 2017.

Borrowings and borrowing facilities

As at 30 June 2017 the Group had the following unsecured committed facilities after the effect of derivatives:

- Revolving credit facility of £400.0m, at a margin over LIBOR, due for renewal in June 2020, £296.5m drawn at 30 June 2017 (2016: £nil);
- One term loan at a margin over LIBOR, £50.0m repayable September 2017, fully drawn at 30 June 2017, £50.0m (2016: £30.0m);
- Four loan notes, principal amounts of £45.0m, US$28.0m, £47.0m and US$116.0m, with fixed coupons of between 4.1% and 4.9%, repayable in four repayments, December 2019, December 2022, November 2021 and November 2024, fully drawn at 30 June 2017, totalling £182.7m at hedged rates (2016: £182.7m);
- Two loan notes, principal amounts of €10.0m and €10.0m, with fixed coupons of between 1.5% and 2.1%, repayable in May 2021 and May 2023, fully drawn at 30 June 2017 totalling £15.7m at hedged rates (2016: £15.7m); and
- Two loan notes, principal amount of £53.5m and £12.0m at a margin over LIBOR with maturity date May 2021 and May 2019, fully drawn at 30 June 2017, totalling £65.5m (one loan note fully drawn at 30 June 2016: £58.5m).

In addition the Group has an unsecured overdraft facility of £45.0m (2016: £45.0m), at a margin over LIBOR, repayable on demand, £nil drawn at 30 June 2017 (2016: £nil) and a bank loan of £2.2m (2016: £1.6m).

The committed facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to EBITDA, interest cover, and consolidated net worth. The Group has complied with these covenants throughout the period.

Included within borrowings are capitalised loan fees of £2.7m (2016: £3.0m).

Two fuel price forward contracts were held at 30 June 2017 with current liability of £0.2m (2016: £nil).

As noted above on 6 July 2017 the Group renegotiated the Revolving Credit Facility, extending the renewal date and total facility level. See note 32 for further details.

28 Financial and capital commitments

	2017 £m	2016 £m
Commitments for capital expenditure	**4.8**	7.9
Commitments for equity and subordinate debt in joint ventures	**4.7**	9.8
	9.5	17.7

The total of future minimum lease payments under non-cancellable operating lease rentals are payable as follows:

	2017		2016	
	Property £m	**Plant and machinery £m**	Property £m	Plant and machinery £m
Within one year	**9.7**	**30.0**	8.8	10.1
Between one and five years	**36.2**	**52.7**	21.7	70.1
Over five years	**114.4**	**–**	22.9	2.0
	160.3	**82.7**	53.4	82.2

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period beyond 30 June 2017 of 25 years. Vehicle leases typically run for a period of four years. No leases include contingent rentals.

29 Related parties

Identity of related parties

The Group has a related party relationship with its joint ventures, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel

The Group's key management personnel are the executive and non-executive directors as identified in the directors' remuneration report on pages 82 to 101 (inclusive).

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to their pension arrangements as disclosed on page 94. Key management personnel also participate in the Group's share option programme (see note 25).

Key management personnel compensation comprised:

	2017 £m	2016 £m
Emoluments as analysed in the directors' remuneration report	**4.5**	4.9
Employer's national insurance contributions	**0.7**	0.7
Total short-term employment benefits	**5.2**	5.6
Share-based payment charge	**0.4**	0.8
	5.6	6.4

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint ventures

	2017 £m	2016 £m
Construction services and materials	**0.1**	–
Management services	**3.2**	3.0
Interest on loans to joint ventures	**0.8**	0.3
	4.1	3.3

Amounts due from/(to) joint ventures are analysed below:

	2017 £m	2016 £m
Saudi Comedat Company Limited	**–**	(0.4)
Staffordshire Property Partnership	**0.1**	–
Kier Trade City Holdco 1 LLP	**10.7**	10.3
Kier Reading Holdco 1 LLP	**15.0**	15.0
Kier Sovereign LLP	**0.3**	3.0
Tri-link 140 Holdings LLP	**1.4**	1.4
Kier Foley Street LLP	**20.9**	20.9
Blue3 (London) (Holdings) Limited	**–**	2.1
Kier (Newcastle) Investment Limited	**–**	4.8
Lysander Student Properties Investments Limited	**–**	3.3
Blue3 (Staffs) Holding Limited	**–**	2.3
Winsford Devco LLP	**1.1**	–
50 Bothwell Street Holdco 1 LLP	**4.7**	–
	54.2	62.7

30 Acquisitions and disposals

(a) Disposal of Mouchel Consulting (subsidiary)

On 12 October 2016, the Group disposed of its investment in Mouchel Limited, which together with its subsidiaries, comprised the Mouchel Consulting business.

	2017 £m
Net sale proceeds	**77.9**
Costs of disposal	**(24.0)**
Other costs	**(7.9)**
Net assets disposed of	**(6.0)**
Profit on disposal	**40.0**

(b) Disposal of investments in joint ventures

Property joint ventures

The property division typically uses joint ventures to structure transactions, and the Group considers disposals of such vehicles to be underlying trading which are in the underlying course of business.

During the year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interests in Blue3 (London) (Holdings) Limited, for a total consideration of £3.8m. The profit on disposal recognised in the year was £1.3m.

During the year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interests in Blue3 (Staffs) (Holdings) Limited, for a total consideration of £5.0m. The profit on disposal recognised in the year was £2.3m. In addition there is an element of deferred consideration totalling £1.4m not yet recognised which is likely to be recognised in the future.

On 2 September 2016 the Group acquired 100% of the share capital and loan notes of Lysander Student Properties Investments Limited (LSPIL). LSPIL had previously been held as a joint venture of which the Group had a 50% holding. The additional 50% of the share capital and loan notes were acquired from the joint venture partner for £3.6m. This transaction has been treated as a deemed disposal of a joint venture and subsequent acquisition of a subsidiary. A gain of £0.7m arose on the deemed disposal of the joint venture. Subsequent to the acquisition on 23 December 2016, the Group disposed of 25% of the share capital and loan notes of LSPIL, resulting in a 75% holding. This transaction has been treated as a deemed disposal of a subsidiary and subsequent acquisition of a joint venture due to the voting rights gained by the purchaser. A gain of £1.1m arose on the deemed disposal of a subsidiary.

Other joint venture disposals

On 13 July 2016, the Group disposed of its investment in Saudi Comedat Company Limited for £4.6m. Disposal costs of £0.6m had been incurred in the year. The net loss on disposal was £1.4m.

During the year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interest in Biogen Holdings Limited for a total consideration of £9.7m. The loss on disposal recognised in the year was £7.6m.

The total disposal proceeds of all investments in joint ventures during the year can be reconciled to the total profit on disposal as follows:

	2017 £m	2016 £m
Sale proceeds	**35.7**	20.4
Book value of net assets	**(37.2)**	(15.5)
Sale costs	**(2.1)**	(2.3)
(Loss)/profit on disposal	**(3.6)**	2.6

31 Subsidiaries and other undertakings

A full list of subsidiaries, associated undertakings, and joint arrangements as at 30 June 2017 is detailed below. Unless stated otherwise, all undertakings are wholly owned and held indirectly by Kier Group plc.

Subsidiaries

Company name	Registered office[1]	Share class(es) held	% held by Group
2020 Liverpool Limited	1	Ordinary	100%
2020 Oldham Limited (in liquidation)	1	Ordinary	100%
2020 Sefton Limited (in liquidation)	1	Ordinary	100%
2020 St Helens Limited (in liquidation)	1	Ordinary	100%
2020 Wirral Limited (in liquidation)	1	Ordinary	100%
A C Chesters & Son Limited	1	Ordinary	100%
Absolute Forbury Limited	1	Ordinary	100%
Absolute Property Limited	1	Ordinary	100%
Absolute Swindon Limited	1	Ordinary	100%
AK Student Living Limited	1	Ordinary A Ordinary B	100% 100%
Allison Homes Eastern Limited	1	Ordinary	100%
Atkins Odlin Consulting Engineers Limited (in liquidation)	1	Ordinary	100%
Ayton Asphalte Company Limited	1	Ordinary A Ordinary B	100% 100%
Balaam Wood Management Company Limited	1	Ordinary	100%
Bellwinch Homes (Western) Limited	1	Ordinary	100%
Bellwinch Homes Limited	1	Ordinary	100%
Bellwinch Limited	1	Ordinary	100%
Brazier Construction Limited	1	Ordinary	100%
Building & Construction Company Limited	1	Ordinary	100%
Caribbean Construction Company Limited	5	Ordinary	100%
Caxton Integrated Services Holdings Limited	1	Ordinary	100%
ClearBOX Limited	1	Ordinary	75%
Connect 21 Community Limited	6	Ordinary	100%
Constantine Place (Longstanton) Management Company Limited	1	Ordinary	100%
Coombe Project Management Limited (in liquidation)	1	Ordinary	100%
Dudley Coles Limited	1	Ordinary	100%
ECT Engineering Limited	1	Ordinary	100%
Elsea Park Bourne Management Company Limited	4	Ordinary	100%
Engage Lambeth Limited	1	Ordinary C	100% 52%[3]
Engineered Products Limited	1	Ordinary	100%
FDT (Holdings) Ltd	1	Ordinary	100%
FDT Associates Ltd	1	Ordinary A	100%
FDT Contracts Ltd (in liquidation)	1	Ordinary	100%
Full Circle Educational Services Ltd (in liquidation)	1	Ordinary	100%
Gas 300 Limited	1	Ordinary	100%
Genica Limited	1	Ordinary	100%
HBS Facilities Management Limited	1	Ordinary	100%
Heart of Wales Property Services Limited	7	Ordinary	50%
Heatherwood (Thetford) Management Company Limited	1	Ordinary	100%
Hedra Group Limited (in liquidation)	1	Ordinary	100%
Hedra Scotland Limited (in liquidation)	8	Ordinary	100%
Henry Jones Construction Limited	1	Ordinary	100%
Henry Jones Limited	1	Ordinary	100%
Hugh Bourn Developments (Wragby) Limited (in liquidation)	1	Ordinary	100%
I E I Limited	1	Ordinary	100%
Instal Consultants MP Limited (in liquidation)	1	Ordinary	100%
J L Kier & Company (London) Limited	1	Ordinary	100%
J L Kier & Company Limited	1	Ordinary	100%
Javelin Construction Company Limited	1	Ordinary	100%
Kier (Catterick) Limited	1	Ordinary A Ordinary B	100% 100%
Kier (Kent) PSP Limited	1	Ordinary A Ordinary B	100% 100%
Kier (NR) Limited	1	Ordinary	100%
Kier Asset Partnership Services Limited	1	Ordinary	100%
Kier Benefits Limited	1	Ordinary	100%
Kier Build Limited	1	Ordinary	100%
Kier Building Limited	1	Ordinary	100%
Kier Business Services Limited	1	Ordinary	100%

1 See list of registered office details on page 158.

For explanatory notes please see page 158.

Company name	Registered office[1]	Share class(es) held	% held by Group
Kier Caribbean And Industrial Limited	1	Ordinary	100%
Kier CB Limited	1	Ordinary	100%
Kier Commercial Investments Limited	1	Ordinary	100%
Kier Commercial UKSC Limited	1	Ordinary	100%
Kier Construction Limited	9	Ordinary	100%
Kier Construction LLC[4]	10	Ordinary	49%
Kier Construction SA	11	Ordinary	100%
Kier Developments Limited	1	Ordinary A Ordinary B Ordinary C	100% 100% 100%
Kier Dormant Holdings Limited	1	Ordinary	100%
Kier Dubai LLC[4]	12	Ordinary	49%
Kier Energy Solutions Limited	1	Ordinary A Ordinary	100% 100%
Kier Engineering Services Limited (in liquidation)	1	Ordinary	100%
Kier Ewan Limited	1	Ordinary	100%
Kier Facilities Services Limited	1	Ordinary	100%
Kier Finance & Treasury Holdings Limited	1	Ordinary	100%
Kier Finance Limited	1	Ordinary	100%
Kier Fleet Services Limited	1	Ordinary	100%
Kier Gas 301 Limited	1	Ordinary	100%
Kier Gas 302 Limited	1	Ordinary A Ordinary B	100% 100%
Kier Group AESOP Trustees Limited[2] (in liquidation)	1	Ordinary	100%
Kier Group Trustees Limited[2]	1	Ordinary	100%
Kier Harlow Limited[7]	1	Ordinary A	100% 80.1%[3]
Kier Highways Limited	1	Ordinary A Ordinary B	100% 100%
Kier Holdings Limited	1	Ordinary Irredeemable Preference Shares	100% 100%
Kier Homes Caledonia Limited	1	Ordinary	100%
Kier Homes Northern Limited	1	Ordinary	100%
Kier Infrastructure and Overseas Limited	1	Ordinary	100%
Kier Infrastructure Pty Ltd	13	Ordinary	100%
Kier Insurance Limited	14	Ordinary	100%
Kier Insurance Management Services Limited	1	Ordinary	100%
Kier Integrated Services (Building) Limited (in liquidation)	1	Ordinary	100%
Kier Integrated Services (Estates) Limited	1	Ordinary	100%
Kier Integrated Services (Holdings) Limited	1	Ordinary Deferred	100% 100%
Kier Integrated Services (Regional) Limited (in liquidation)	1	Ordinary	100%
Kier Integrated Services (Technical Services) Limited (in liquidation)	1	Ordinary	100%
Kier Integrated Services (Trustees) Limited	1	Ordinary	100%
Kier Integrated Services Group Limited	1	Ordinary	100%
Kier Integrated Services Limited	1	Ordinary	100%
Kier International (Investments) Limited	1	Ordinary	100%
Kier International Limited	1	Ordinary	100%
Kier International Limited	15	Ordinary	100%
Kier Islington Limited	1	Ordinary Islington	100% 100%
Kier Jamaica Development Limited	1	Ordinary	100%
Kier Land Limited	1	Ordinary	100%
Kier Limited[2]	1	Ordinary	100%
Kier Living Limited[2]	1	Ordinary	100%
Kier London Limited	1	Ordinary	100%
Kier Management Consulting Limited	1	Ordinary Ordinary A Ordinary B	100% 100% 100%
Kier Midlands Limited	1	Ordinary	100%
Kier Minerals Limited	1	Ordinary	100%
Kier Mining Investments Limited	1	Ordinary	100%
Kier Mortimer Limited	1	Ordinary	100%
Kier National Limited	1	Ordinary	100%
Kier North East Limited	1	Ordinary	100%
Kier North Tyneside Limited[7]	1	Ordinary B	100% 80%[3]
Kier Overseas (Fifteen) Limited	1	Ordinary	100%
Kier Overseas (Four) Limited	1	Ordinary	100%

[1] See list of registered office details on page 158.

For explanatory notes please see page 158.

31 Subsidiaries and other undertakings continued

Subsidiaries continued

Company name	Registered office[1]	Share class(es) held	% held by Group
Kier Overseas (Fourteen) Limited	1	Ordinary	100%
Kier Overseas (Nine) Limited	1	Ordinary	100%
Kier Overseas (Nineteen) Limited	1	Ordinary	100%
Kier Overseas (Seventeen) Limited	1	Ordinary	100%
Kier Overseas (Six) Limited	1	Ordinary	100%
Kier Overseas (Twelve) Limited	1	Ordinary	100%
Kier Overseas (Twenty-Four) Limited	1	Ordinary	100%
Kier Overseas (Twenty-Three) Limited	1	Ordinary	100%
Kier Overseas (Two) Limited	1	Ordinary	100%
Kier Parkman Ewan Associates Limited	1	Ordinary A	100%
Kier Parkman Ewan Services Limited (in liquidation)	1	Ordinary	100%
Kier Parkman GB Limited	1	Ordinary	100%
Kier Parkman LDA Limited (in liquidation)	1	Ordinary	100%
Kier Parkman Metro Limited (in liquidation)	1	Ordinary	100%
Kier Parkman Property Management Limited (in liquidation)	1	Ordinary	100%
Kier Parkman ServiGroup Limited	1	Ordinary	100%
Kier Parkman ServiRail Construction Projects Limited (in liquidation)	1	Ordinary	100%
Kier Parkman ServiServices Limited (in liquidation)	1	Ordinary	100%
Kier Parkman ServiWays Limited (in liquidation)	1	Ordinary	100%
Kier Parkman Two (NI) Limited	16	Ordinary	100%
Kier Partnership Homes Limited	1	Ordinary	100%
Kier Plant Limited	1	Ordinary	100%
Kier Professional Services Limited	1	Ordinary	100%
Kier Project Investment Limited	1	Ordinary	100%
Kier Property Developments Limited	1	Ordinary	100%
Kier Property Limited	1	Ordinary	100%
Kier Property Management Company Limited	1	Ordinary	100%
Kier Rail Limited	1	Ordinary	100%
Kier Rail No.2 Limited	1	Ordinary	100%
Kier Recycling CIC	1	Ordinary	100%
Kier Scotland Limited	17	Ordinary	100%
Kier Services Limited	1	Ordinary	100%
Kier Sheffield LLP[7]	1	–	80.1%
Kier South East Limited	1	Ordinary	100%
Kier Southern Limited	1	Ordinary	100%
Kier Stoke Limited[7]	1	Ordinary A	100%
			80.1%[3]
Kier Sydenham Limited	1	Ordinary	100%
Kier Thurrock Limited	1	Ordinary	100%
Kier Traffic Support Limited	1	Ordinary	100%
Kier Trustee Limited (in liquidation)	1	Ordinary	100%
Kier UKSC LLP	1	–	100%
Kier Ventures Limited	1	Ordinary	100%
Kier Ventures UKSC Limited	1	Ordinary	100%
Kier Whitehall Place Limited	1	Ordinary	100%
Kier York Street LLP	1	–	100%
KM Docklands Hotel Limited (in liquidation)	1	Ordinary	100%
Lambeth Learning Partnership (PSP) Limited	1	Ordinary	65%
Land Aspects Limited (in liquidation)	1	Ordinary	100%
Lazenby & Wilson Limited	1	Ordinary	100%
Liferange Limited	1	Ordinary	100%
Marriott Limited	1	Ordinary	100%
MGWSP Essex Limited (in liquidation)	1	Ordinary	100%
Michco 210 Limited (in liquidation)	1	Ordinary	100%
MKB Resourcing Limited (in liquidation)	1	Ordinary	100%
Morrell-Ixworth Limited	1	Ordinary	100%
		Deferred	100%
Moss Construction Northern Limited	1	Ordinary	100%
Moss Construction Southern Limited	1	Ordinary	100%
Mouchel International (Jersey) Limited	18	Ordinary	100%
MPHBS Limited	1	Ordinary	100%
MRBL Limited	1	Ordinary A	100%
		Ordinary B	100%
		Deferred B	100%
New Learning Limited (in liquidation)	1	Ordinary	100%

1 See list of registered office details on page 158.

For explanatory notes please see page 158.

Company name	Registered office[1]	Share class(es) held	% held by Group
Newbury King & Co Limited	1	Ordinary	100%
Norfolk Community Recycling Services Limited (in liquidation)	1	Ordinary A	100%
		Ordinary B	100%
Parkman Consultants Limited	1	Ordinary	100%
Parkman Consulting Engineers (in liquidation)	1	Ordinary	100%
Parkman Group Professional Services Limited (in liquidation)	1	Ordinary	100%
Parkman Holdings Limited	1	Ordinary	100%
Parkman Kenya Limited	19	Ordinary	100%
Parkman Nigeria Limited	20	Ordinary	100%
Parkman Scotland Limited (in liquidation)	8	Ordinary	100%
Parkman South East Limited (in liquidation)	1	Ordinary A	100%
		Ordinary X	100%
PCE Holdings Limited (in liquidation)	1	Ordinary	100%
		Ordinary C	100%
PFI Street Lighting Limited (in liquidation)	1	Ordinary	100%
Pure Buildings Limited	1	Ordinary	100%
Pure Recycling Warwick Limited	1	Ordinary A	100%
		Ordinary B	100%
Riley Builders Limited	1	Ordinary	100%
Robert Marriott Group Limited	1	Ordinary	100%
Saudi Kier Construction Limited	23	Ordinary	100%
Sea Place Management Limited	1	Ordinary	100%
Senturion (BidCo) Limited	1	Ordinary	100%
Senturion (MidCo) Limited	1	Ordinary	100%
Senturion Group Limited	1	Ordinary	100%
Senturion Trustees Limited (in liquidation)	1	Ordinary	100%
Social Power (Harlow) Holdings Limited	1	Ordinary	100%
Social Power (Harlow) Limited	1	Ordinary	100%
St Walstan's Management Company Limited	1	Ordinary	100%
T Cartledge Limited	1	Ordinary	100%
T H Construction Limited	1	Ordinary	100%
T J Brent Limited	1	Ordinary	100%
		B Ordinary	100%
		C Ordinary	100%
Tempsford Cedars Limited	1	Ordinary	100%
Tempsford Holdings Limited[2] (in liquidation)	1	Ordinary	100%
Tempsford Insurance Company Limited[2]	14	Ordinary	100%
Tempsford Oaks Limited[2] (in liquidation)	1	Ordinary	100%
Tor[2] Limited	1	PSP Shares	100%
			80.01%[3]
The Impact Partnership (Rochdale Borough) Limited	1	Ordinary	80.1%
The Unity Partnership Limited	1	Ordinary	66.7%
Traffic Support EBT Limited (in liquidation)	1	Ordinary	100%
Tudor Homes (East Anglia) Limited (in liquidation)	1	Ordinary	100%
Turriff Contractors Limited	17	Ordinary	100%
Turriff Group Limited	17	Ordinary	100%
		Ordinary A	100%
		Ordinary B	100%
Turriff Smart Services Limited	17	Ordinary	100%
Twigden Homes Limited	1	Ordinary	100%
Twigden Homes Southern Limited	1	Ordinary	100%
Underground Moling Services Limited	17	Ordinary	100%
Usherlink Limited	1	Ordinary	100%
W. & C. French (Construction) Limited	1	Ordinary	100%
Wallis Builders Limited	1	Ordinary	100%
Wallis Limited	1	Ordinary	100%
Wallis Western Limited	1	Ordinary	100%
William Moss Civil Engineering Limited	1	Ordinary	100%
William Moss Group Limited (The)	1	Ordinary	100%

[1] See list of registered office details on page 158.

For explanatory notes please see page 158.

31 Subsidiaries and other undertakings continued

Joint ventures

Company name	Registered office[1]	Interest held		Registered office[1]	Interest held
Property					
3 Sovereign Square Holdings 1 LLP	1	50%	Kier Warth Limited	1	50%
3 Sovereign Square Holdings 2 LLP	1	50%	Kingswood Devco Holdings 1 LLP	1	50%
3 Sovereign Square LLP	1	50%	Kingswood Devco Holdings 2 LLP	1	50%
50 Bothwell Street Holdco 1 LLP	2	50%	Kingswood Devco LLP	1	50%
50 Bothwell Street Holdco 2 LLP	2	50%	Lysander Student Properties Investments Limited	1	75%
50 Bothwell Street LLP	2	50%	Lysander Student Properties Limited	1	75%
Alliance Community Partnership Limited	3	10%	Lysander Student Properties Operations Limited	1	75%
Black Rock Devco LLP	1	50%	Magnetic Limited	1	75%
Black Rock Holdco 1 LLP	1	50%	Notaro Kier LLP	1	50%
Black Rock Holdco 2 LLP	1	50%	Penda Limited	1	50%
Dragon Lane Holdings 1 LLP	1	50%	Premier Inn Kier Limited	1	50%
Dragon Lane Holdings 2 LLP	1	50%	Sandy Lane (Oxford) Management Limited	22	22.5%
Dragon Lane LLP	1	50%	Solum Regeneration (Bishops) LLP	1	50%
Driffield Devco LLP	1	50%	Solum Regeneration (Epsom) Limited Partnership	1	49.95%
Driffield Holdco 1 LLP	1	50%	Solum Regeneration (Guildford) LLP	1	50%
Driffield Holdco 2 LLP	1	50%	Solum Regeneration (Haywards) LLP	1	50%
Easingwold Devco LLP	1	50%	Solum Regeneration (Kingswood) LLP	1	50%
Easingwold Holdco 1 LLP	1	50%	Solum Regeneration (Maidstone) LLP	1	50%
Easingwold Holdco 2 LLP	1	50%	Solum Regeneration (Redhill) LLP	1	50%
Fore UK I B LP	2	29%	Solum Regeneration (Surbiton) LLP	1	50%
KCK Peterborough Devco LLP	1	90%	Solum Regeneration (Tanner) LLP	1	50%
KCK Peterborough Holdco 1 LLP	1	90%	Solum Regeneration (Tonbridge) LLP	1	50%
KCK Peterborough Holdco 2 LLP	1	90%	Solum Regeneration (Twickenham) LLP	1	50%
Kent LEP 1 Limited	1	80%	Solum Regeneration (Walthamstow) LLP	1	50%
Kier (Newcastle) Investment Ltd	1	75%	Solum Regeneration Epsom (GP Subsidiary) Limited	1	50%
Kier (Newcastle) Operation Limited	1	75%	Solum Regeneration Epsom (GP) Limited	1	49.5%
Kier (Southampton) Development Limited	1	75%	Solum Regeneration Epsom (Residential) LLP	1	50%
Kier (Southampton) Investment Limited	1	75%	Stokesley Devco LLP	1	50%
Kier (Southampton) Operations Limited	1	75%	Stokesley Holdco 1 LLP	1	50%
Kier Cross Keys Dev LLP	1	90%	Stokesley Holdco 2 LLP	1	50%
Kier Cross Keys Holdco 1 LLP	1	90%	Strawberry Percy Holdings 1 LLP	1	50%
Kier Cross Keys Holdco 2 LLP	1	90%	Strawberry Percy Holdings 2 LLP	1	50%
Kier Foley Street Holdco 1 LLP	1	90%	Strawberry Percy LLP	1	50%
Kier Foley Street Holdco 2 LLP	1	90%	Transcend Property Limited	25	50%
Kier Foley Street LLP	1	90%	Tri-Link 140 Holdings 1 LLP	1	50%
Kier Hammersmith Holdco Limited	1	50%	Tri-Link 140 Holdings 2 LLP	1	50%
Kier Hammersmith Limited	1	50%	Tri-Link 140 LLP	1	50%
Kier Reading Holdco 1 LLP	1	90%	Watford Health Campus Partnership LLP	1	50%
Kier Reading Holdco 2 LLP	1	90%	Winsford Devco LLP	1	50%
Kier Reading LLP	1	90%	Winsford Holdings 1 LLP	1	50%
Kier Sovereign LLP	1	50%	Winsford Holdings 2 LLP	1	50%
Kier Sydenham GP Holdco Limited	1	50%			
Kier Sydenham GP Limited	1	50%	**Long-term concession holdings under the Private Finance Initiative:**		
Kier Sydenham LP	1	50%	Blue3 (Staffs) (Holdings) Limited[5]	1	80%
Kier Sydenham Nominee Limited	1	50%	Blue3 (Staffs) Limited[5]	1	80%
Kier Trade City Holdco 1 LLP	1	90%	Evolution (Woking) Holdings Limited	1	50%
Kier Trade City Holdco 2 LLP	1	90%	Evolution (Woking) Limited	1	50%
Kier Trade City LLP	1	90%			
Services			**Construction**		
2020 Knowsley Limited	1	80.1%	Kier Graham Defence Limited	1	50%
Hackney Schools for the Future Limited	1	40%	Rathenraw Limited (in liquidation)	21	50%
Mouchel Babcock Education Investments Limited	1	50%			
Mouchel Babcock Education Services Limited	1	50%			
Team Van Oord Limited	24	25%			
VinciMouchel Limited[6]	26	50%			

1 See list of registered office details on page 158.

For explanatory notes please see page 158.

Joint operations

Joint operation name	Description	Trading address
UK		
Crossrail Contracts 300/410/435	a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited	Farringdon Road, London ECIM 3HN
Deephams	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, and Aecom Limited	Deephams Sewage Treatment Wales, Pickett's Lock Lane, Edmonton, N9 0BA
Hercules	a joint arrangement between Kier Construction Limited, Kier Living Limited and Balfour Beatty	Hercules Site Offices, The Wessex Building, MOD Lynham, Calne Road, Lyneham, Chippenham, SN15 4PZ
Hinkley Point C	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited	Hinkley Point C Construction Site, Wick Moor Drove, Bridgwater, Somerset, TA5 1UD
KCD	a joint arrangement between Kier Integrated Services Limited and Clancy Docwra Limited	Thames Water Offices, Clear Water Court, Vastern Rd, Reading, RG1 8DB
KMI Plus	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, Inteserve Project Services Limited and Mouchel Limited	Central Framework Office, Brunswick House, Hindley Green Business Park, Leigh Road, Hindley Green, Wigan, Greater Manchester, WN2 4TN
KMI Water	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited	Central Framework Office, Brunswick House, Hindley Green Business Park, Leigh Road, Hindley Green, Wigan, Greater Manchester, WN2 4TN
Mersey Gateway	a joint arrangement between Kier Infrastructure and Overseas Limited, Samsung C&T ECUK Limited and FCC Construccion S.A.	Forward Point, Tan House Lane, Widnes, WA8 0SL
Smart Motorways	a joint arrangement between Kier Infrastructure and Overseas Limited and Carillion Construction Limited	M6 J16-19 Project Office, Holmes Chapel Road, Sandbach CW11 1SE
Kier WSP	a joint arrangement between Kier Integrated Services Limited and WSP UK Limited	Northamptonshire Highways, Highways Depot, Harborough Rd, Brixworth Northants NN6 9BX
International		
	The following joint operations, in which the Group participation is between 30% and 65%, operate overseas in the territory indicated:	
DM Roads Services Pty Ltd	a joint arrangement between Mouchel International (Jersey) Limited and Downer EDI Works Pty Ltd	New South Wales, Australia, ACN 166 600 166
DPDP-6003 Residential Project (Bluewaters)	a joint arrangement between Kier Infrastructure and Overseas Limited and Al Shafar General Contracting Co LLC	Bluewaters Island, Dubai
MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited and Kaden Construction Limited	Area 3.6, Tai Kong Po Tsuen, Kam Tin, Yuen Long, N.T., Hong Kong
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited	Admiralty Station, Hong Kong Island
Saadiyat Rotana Hotel and Resort Complex	a joint arrangement between Kier Infrastructure and Overseas Limited and Ali and Sons Contracting Co LLC	Sadiyat Island, Abu Dubai
Kier ACC	a joint arrangement between Kier Dubai LLC and Arabian Construction Co.SAL	AL Qudra Road, Dubai

[1] See list of registered office details on page 158.

31 Subsidiaries and other undertakings continued

Registered office addresses

Number	Address
1	Tempsford Hall, Sandy, Bedfordshire, SG19 2BD, UK
2	18, Saville Row, London, W1S 3PW, UK
3	Suite 1a, Willow House, Strathclyde Business Park, Bellshill, Lanarkshire, ML4 3PB, UK
4	82, The Maltings, Roydon Road, Stanstead Abbotts, Hertfordshire, SG12 8HG, UK
5	Harbour Head, Harbour View, Kingston 17, Jamaica
6	Bates NVH, 44 Essex Street, Strand, London, WC2R 3JF, UK
7	Unit 39, Vastre Depot/Offices, (Old Severn Trent Building), Vastre Industrial Estate, Newtown, Powys, SY16 1DZ, UK
8	Lanark Court, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW, UK
9	c/o Grant Thornton, Cnr Bank Street and West Independence Sq Street, Basseterre, Saint Kitts and Nevis
10	Unit 896, PO Box: 61967 Level 08, Aya Business Center, Al Gaith Tower, Hamdan Street, Abu Dhabi, United Arab Emirates
11	151 Angle Avenue, Jean Paul II et Impasse Duverger, Turgeau, Port-au-Prince, Republic of Haiti
12	Unit 1501, P.O. Box 2, Thuraya Tower, Plot No C-008-001, TECOM, Dubai, United Arab Emirates
13	181 Adelaide Terrace, East Pert, WA, WA 6004, Australia
14	Mason Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey
15	6th Floor, Wincome Centre 39 Des Voeux Road, Central, Hong Kong
16	Shorefield House, Kinnegar Drive, Holywood, Co Down, BT18 9JQ, UK
17	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, G33 6HZ, UK
18	Sanne Group, 13 Castle Street, St Helier, JE4 5UT, Jersey
19	5th Floor, Agip House, P.O. Box 41425, Nairobi, Kenya
20	9, N/Azikiwe St., Lagos, Nigeria
21	c/o Pinsent Masons LLP,1 Lanyon Place, Belfast, BT1 3LP, UK
22	95, Ditchling Road, Brighton, BN1 4ST, UK
23	P.O Box 677, 4th Floor, ATCO Building, King Khaled Road, Dammam-31421, KSA, United Arab Emirates
24	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ, UK
25	1, Kingsway, London, WC2B 6AN, UK
26	Astral House, Imperial Way, Watford, Hertfordshire, WD24 4WW, UK

Explanatory notes:

[1] The share capital of all entities is wholly owned and held indirectly by Kier Group plc unless indicated otherwise.

[2] Shares held directly by Kier Group plc.

[3] Total interest in entity held by the Group as there are other share class(es) held by a third party.

[4] In some jurisdictions in which the Group operates, share classes are not defined and in these instances, for the purposes of disclosure, these holdings have been classified as ordinary shares.

[5] The interest of the Group was sold on 13 July 2017.

[6] The interest of the Group was sold on 28 July 2017.

[7] The Group has entered into partnership arrangements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited respectively.

[8] Joint operations are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.

[9] Interests in the above joint ventures are held by subsidiary undertakings.

[10] The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group has joint control.

32 Events after the end of the reporting period

Acquisition of McNicholas

On 12 July 2017, the Group acquired the entire share capital of McNicholas Construction (Holdings) Limited ('McNicholas'), a leading infrastructure services provider. The acquisition of McNicholas builds on the Group's strategy to accelerate growth and hold leading positions in its chosen markets. The Board believes the acquisition is a highly complementary addition to the Group's utility services business and enhances the Group's presence in the power, rail and telecoms markets, with its long-standing client relationships.

The maximum consideration payable for the acquisition is £27.4m, comprising £13.4m in cash paid at completion and £14.0m of deferred contingent consideration. The £14.0m of deferred contingent consideration comprises:

- £9.5m in cash payable on achieving certain EBITDA (earnings before interest, tax, depreciation and amortisation) targets; and
- £4.5m payable on achieving debt-recovery targets.

The fair value of the total consideration expected to be paid is £21.9m.

The fair value of net liabilities acquired totalled £33.0m. Due to the proximity of the acquisition to the Group's reporting date, the fair values of assets and liabilities acquired are provisional to allow for further adjustments in the measurement period.

The difference between the fair value of consideration and net liabilities acquired of £54.9m will be attributed to goodwill and intangible fixed assets including contract rights. None of the goodwill recognised is expected to be deductible for tax purposes.

The majority of the £1.8m of acquisition costs were incurred in the year and were expensed to the income statement as a non-underlying item.

As McNicholas was acquired after the end of the current reporting period, the business made no contribution to the Group revenue or underlying profit before taxation in the year.

Renegotiation of financing facilities

On 6 July 2017 the Group extended the tenor, to April 2022, of its core multi-bank Revolving Credit Facility. In addition to a lower borrowing rate, the banking group has been extended and the total available facilities have been increased to £670.0m from £400.0m.

Company balance sheet

At 30 June 2017

	Notes	2017 £m	2016 £m
Fixed assets			
Investment in subsidiaries	5	**173.6**	170.9
Amounts due from subsidiary undertakings		**660.4**	712.2
		834.0	883.1
Current assets			
Debtors	6	**1.6**	1.7
Other financial assets	8	**18.9**	18.1
Cash and cash equivalents		**463.3**	118.4
		483.8	138.2
Current liabilities			
Creditors – amounts falling due within one year	7	**(54.5)**	(11.5)
Other financial liabilities	8	**(0.3)**	(1.1)
		(54.8)	(12.6)
Net current assets		**429.0**	125.6
Total assets less current liabilities		**1,263.0**	1,008.7
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	**(579.6)**	(301.6)
Net assets		**683.4**	707.1
Shareholders' funds			
Share capital	9	**1.0**	1.0
Share premium		**434.8**	418.0
Merger reserve		**134.8**	134.8
Capital redemption reserve		**2.7**	2.7
Cash flow hedge reserve		**(2.8)**	(0.6)
Profit and loss account		**112.9**	151.2
Total shareholders' funds		**683.4**	707.1

The financial statements on pages 160 to 165 were approved by the Board of Directors on 20 September 2017 and were signed on its behalf by:

Haydn Mursell
Chief Executive

Bev Dew
Finance Director

Company statement of changes in equity

For the year ended 30 June 2017

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Cash flow hedge reserve £m	Total equity £m
At 1 July 2015	1.0	408.5	134.8	2.7	179.9	(1.2)	**725.7**
Profit for the year	–	–	–	–	20.0	–	**20.0**
Other comprehensive income	–	–	–	–	–	0.6	**0.6**
Dividends paid	–	–	–	–	(54.7)	–	**(54.7)**
Issue of own shares	–	9.5	–	–	–	–	**9.5**
Share-based payments	–	–	–	–	5.6	–	**5.6**
Purchase of own shares	–	–	–	–	0.4	–	**0.4**
At 30 June 2016	1.0	418.0	134.8	2.7	151.2	(0.6)	**707.1**
Profit for the year	–	–	–	–	22.6	–	**22.6**
Other comprehensive loss	–	–	–	–	–	(2.2)	**(2.2)**
Dividends paid	–	–	–	–	(63.0)	–	**(63.0)**
Issue of own shares	–	16.8	–	–	–	–	**16.8**
Share-based payments	–	–	–	–	2.7	–	**2.7**
Purchase of own shares	–	–	–	–	(0.6)	–	**(0.6)**
At 30 June 2017	**1.0**	**434.8**	**134.8**	**2.7**	**112.9**	**(2.8)**	**683.4**

Included in the profit and loss account is the balance on the share scheme reserve which comprises the investment in own shares of £1.7m (2016: £3.4m) and a credit balance on the share scheme reserve of £8.4m (2016: £10.2m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share based payment scheme are included in note 25 to the consolidated financial statements.

Notes to the Company financial statements

For the year ended 30 June 2017

1 Accounting policies

The principal accounting policies are summarised below. They have been applied consistently throughout the year and the preceding year.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS101') and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Kier Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 167.

The Company's financial statements are included in the Kier Group plc consolidated financial statements for the year ended 30 June 2017. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS101.

- The requirement of paragraphs 45(b) and 46 to 52 of IFRS 'Share Based Payment'
- The requirements of IFRS 7 'Financial Instruments: Disclosures'
- The requirements of paragraphs 91 to 99 of IFRS13 'Fair Value Measurement'
- The requirement in paragraph 38 of IAS1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS1
- The requirement of paragraphs 10(d), 10a(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS1 'Presentation of Financial Statements'
- The requirements of paragraphs 134 to 136 of IAS1 'Presentation of Financial Statements'
- The requirements of IAS7 'Statement of Cash Flows'
- The requirements of paragraphs 30 and 31 of IAS8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- The requirement of paragraphs 17 and 18A of IAS24 'Related Party Disclosures'
- The requirements in IAS24 'Related party disclosures' to disclose related party transaction entered into between two or more members of a group
- The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS36 'Impairment of Assets'

These financial statements are separate financial statements. The Company is exempt from the preparation of consolidated financial statements because it is included in the Annual Report and Financial Statements of the Group.

Where required, equivalent disclosures are given in the Annual Report and Financial Statements of the Group as shown in note 1 to 9.

Going concern

The directors have made enquiries and have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. For this reason, they adopt the going concern basis in preparing the financial statements.

Fixed asset investments

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for impairment.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax provision is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Company are as follows:

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, including bank deposits with original maturities of three months or less, net of bank overdrafts where legal right of set off exists. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(b) Bank and other borrowings

Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

(c) Derivative financial instruments

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Company would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Company enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Share-based payments

Share-based payments granted but not vested are valued at the fair value of the shares at the date of grant. This affects the Sharesave and Long Term Incentive Plan ('LTIP') schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a stochastic model.

The cost to the Company of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

Shares purchased and held in trust in connection with the Company's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company accounting policies which are described above, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and the factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

There are no critical judgements, apart from those involving estimates, that the directors have made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognised in the financial statements.

They key assumptions and a key source of estimation uncertainty at the balance sheet date that has a significant risk of carrying a material adjustment to the carrying amount within the next financial year is:

Impairment of investment in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' value in use. The value in use calculations require the entity to estimate the future cash flows expected to arise from investments. The carrying amount of the investment in subsidiaries at the balance sheet date was £173.6m (2016: £170.9m). No impairment losses have been recognised.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The profit for the year was £22.6m (2016: £20.0m).

The auditors' remuneration for audit services to the Company was £0.1m (2016: £0.1m).

3 Information relating to directors and employees

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 82 to 101. The Company has no employees other than the directors.

4 Dividends

Details of the dividends paid by the Company are included in note 10 to the consolidated financial statements.

5 Fixed assets – investments

	2017 £m	2016 £m
Cost and net asset value	**173.6**	170.9

Details of the Company's subsidiaries at 30 June 2017 are provided in note 31 to the consolidated financial statements.

6 Debtors

	2017 £m	2016 £m
Other debtors	**0.3**	0.2
Deferred tax	**1.3**	1.5
	1.6	1.7

7 Creditors

	2017 £m	2016 £m
Amounts falling due within one year:		
Borrowings	**50.0**	–
Corporation tax	**1.5**	8.9
Other creditors	**3.0**	2.6
	54.5	11.5
Amounts falling due after more than one year:		
Borrowings	**579.6**	301.6

Further details on borrowings are included in note 27 to the consolidated financial statements.

8 Derivative financial instruments

During 2013 the Company entered into three cross-currency swaps to hedge the currency risk on a US dollar denominated loan, nominal value US$28.0m. During 2014 the Company entered into four cross-currency swaps to hedge the currency risk on a US dollar denominated loan, nominal value US$116.0m. During 2016 the Company entered into two cross-currency swaps to hedge the currency risk on a Euro denominated loan, nominal value €20.0m, and three interest rate swaps to hedge the interest rate risk on a GBP denominated loan, nominal value £58.5m. During 2017 the company reduced the value on the HSBC interest rate swap from £15.0m to £10.0m and entered into an additional swap of £12.0m bringing the total value to £65.5m. These swaps continue to meet the criteria for hedge accounting and as a result have been recognised directly in equity.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur, how those cash flows will impact the income statement and the fair value of the related hedging instruments:

					Expected cash flows	
	Fair value £m	**Total £m**	**0–1 years £m**	**1–2 years £m**	**2–5 years £m**	**More than 5 years £m**
Cross-currency swaps: asset						
Gross settled inflows		163.1	5.4	5.4	46.1	106.2
Gross settled outflows		(135.6)	(4.6)	(4.6)	(38.9)	(87.5)
	18.9	**27.5**	**0.8**	**0.8**	**7.2**	**18.7**
Interest rate swaps: liability						
Net settled	**(0.3)**	(0.3)	(0.3)	(0.1)	0.1	–

9 Share capital

Details of the share capital of the Company are included in note 24 to the consolidated financial statements.

Financial Record

(unaudited)

Continuing operations

Year ended 30 June	**2017 £m**	2016[2] £m	2015[2] £m	2014[2] £m	2013[2] £m
Revenue: Group and share of joint ventures	**4,265.2**	4,078.7	3,322.5	2,934.0	1,954.9
Less share of joint ventures	**(153.5)**	(90.9)	(67.9)	(27.1)	(36.4)
Group revenue	**4,111.7**	3,987.8	3,254.6	2,906.9	1,918.5
Profit					
Group operating profit[1]	**115.2**	124.3	81.7	79.6	41.9
Share of post-tax results of joint ventures	**25.0**	14.2	9.1	2.0	0.7
Profit on disposal of joint ventures	**5.4**	2.6	14.8	6.1	9.8
Underlying operating profit[1]	**145.6**	141.1	105.6	87.7	52.4
Underlying net finance costs[1]	**(19.5)**	(24.7)	(15.8)	(13.6)	(6.7)
Underlying profit before tax[1]	**126.1**	116.4	89.8	74.1	45.7
Amortisation of intangible assets relating to contract rights	**(22.3)**	(21.5)	(11.2)	(10.8)	(3.4)
Non-underlying finance costs	**(2.9)**	(2.8)	(3.6)	(5.3)	(1.3)
Other non-underlying items	**(75.1)**	(127.0)	(55.1)	(42.8)	(15.3)
Profit/(loss) before tax	**25.8**	(34.9)	19.9	15.2	25.7
Underlying basic earnings per share[1]	**106.8p**	99.5p	101.6p	88.1p	91.1p
Dividend per share	**67.5p**	64.5p	55.2p	57.6p	54.3p
At 30 June					
Shareholders' funds (£m)	**511.4**	576.1	585.4	309.7	158.3
Net assets per share	**524.8p**	600.0p	615.2p	447.8p	317.5p

1 Stated before non-underlying items (see note 4 to the consolidated financial statements).

2 Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen operations as discontinued.

Corporate information

Board of Directors

P G Cox CBE
H J Mursell
B E J Dew
N P Brook
N A Turner
C Veritiero
J R Atkinson
C F Baroudel
A K Bashforth
A C Walker
N P Winser CBE

Secretary

H E E Raven

Headquarters and registered office

Kier Group plc
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Registered number

England 2708030

Financial calendar

17 November 2017
Annual general meeting

1 December 2017
Payment of final dividend for the year ended 30 June 2017

March 2018
Announcement of half-year results and interim dividend for the six months ending 31 December 2017

May 2018
Payment of interim dividend for the six months ending 31 December 2017

September 2018
Announcement of preliminary full-year results and final dividend for the year ending 30 June 2018

Auditor

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Principal bankers

Barclays Bank plc
1 Churchill Place
London
E14 5HP

Lloyds Banking Group plc
10 Gresham Street
London
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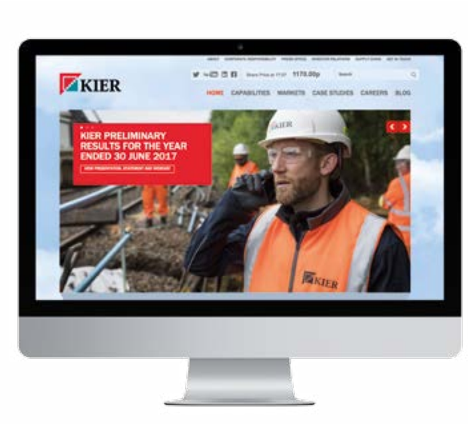

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