



Kier Group

Interim results for the six months to 31 December 2014

25 February 2015

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Haydn Mursell

Chief Executive

Agenda

- Introduction and highlights
- Financials
- Operational update
- Group outlook

Introduction

- Broad global recovery
- Positive momentum but uncertainty exists
- Our markets improving
 - UK confidence
 - Building, Housing, and Property
 - Cross party support
 - Infrastructure
 - Austerity to continue
 - Outsourcing
 - Integrated services

Highlights



- Good results in line with expectations
 - Operating profit £44m
 - Net debt £156m, ahead of forecast
- Strong performances from Property and Construction
- Residential and Services second half weighted, as expected
- Well positioned for 2015
 - Property development pipeline of more than £1bn
 - Strong forward sales position for Residential
 - Improved order books of £6.5bn in Construction and Services
 - Fully secured for 2015
- Interim dividend increased by 7% to 24p



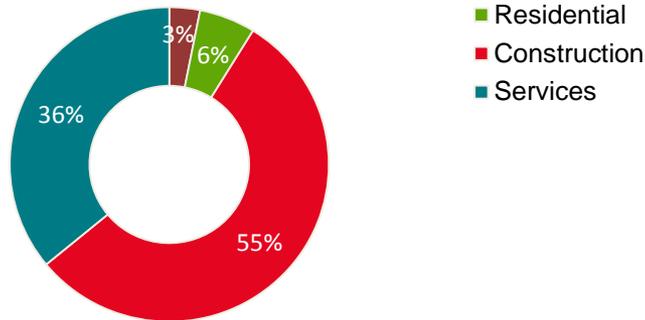
Financial update

Bev Dew, Finance Director

Overview: revenue and operating profit

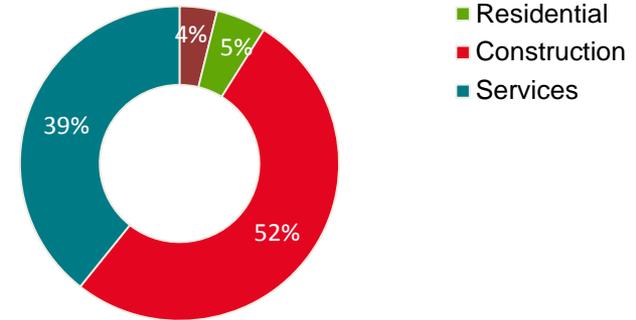
December 2014

Revenue **£1,583m** *Up 11%*

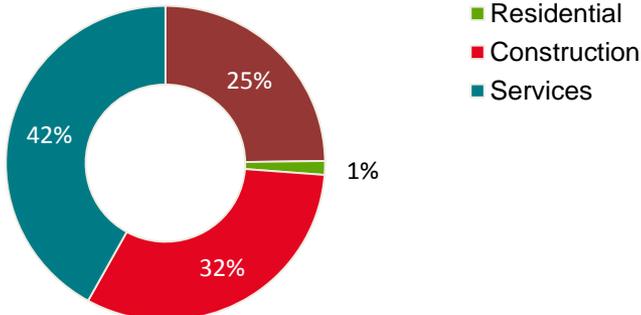


December 2013

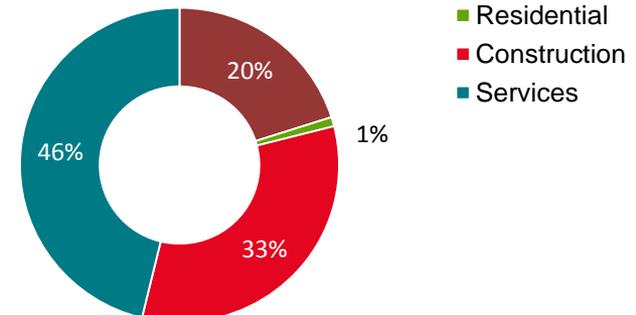
Revenue **£1,432m**



Operating profit* **£56.5m**



Operating profit* **£52.8m**



*Excluding corporate costs, significant one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.

Income statement

		Six months ended 31 December		Change %
		2014	2013	
		£m	£m	
Operating profit*	Group	42.3	41.9	+1
	Joint ventures (JVs)	0.6	0.4	+50
	Profit on disposal of PFI investments	1.3	2.1	-38
Total operating profit		44.2	44.4	-
Net finance costs		(8.3)	(7.6)	+9
Profit before tax		35.9	36.8	-2
Underlying earnings per share (pence)*		51.1	54.6	-6
Dividend per share (pence)		24.0	22.5	+7

* Excluding one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.

Operating profit

Performance by division	Six months ended 31 December		Change %
	2014	2013	
	£m	£m	
Property	14.0	10.6	+32
Residential	0.8	0.5	+60
Construction	18.0	17.3	+4
Operating margin	2.1%	2.3%	
Services	23.7	24.4	-3
Operating margin	4.2%	4.3%	
Corporate	(12.3)	(8.4)	+46
Total operating profit*	44.2	44.4	-
Net finance cost	(8.3)	(7.6)	+9
Profit before tax*	35.9	36.8	-2

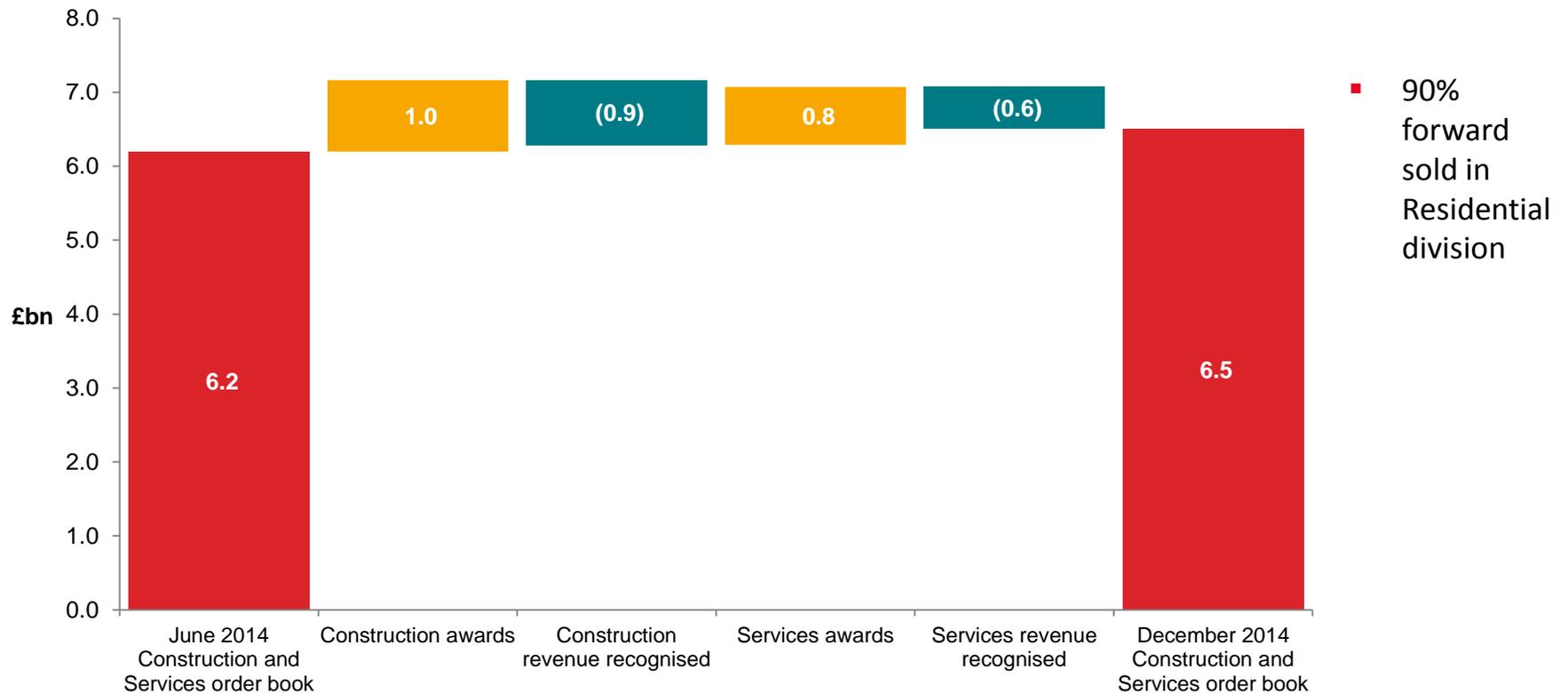
* Excluding one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.

Exceptional items

		Six months ended 31 December	
		2014	2013
		£m	£m
Costs in relation to the acquisition of May Gurney Integrated Services plc	Transaction	-	(7.5)
	Integration	-	(14.5)
Restructuring and business disposal costs		(1.1)	-
Costs associated with cessation of the Kier Group final salary pension scheme		(1.0)	-
Total exceptional items		(2.1)	(22.0)
Tax on exceptional items		0.4	3.3
Exceptional items after tax		(1.7)	(18.7)

Order book

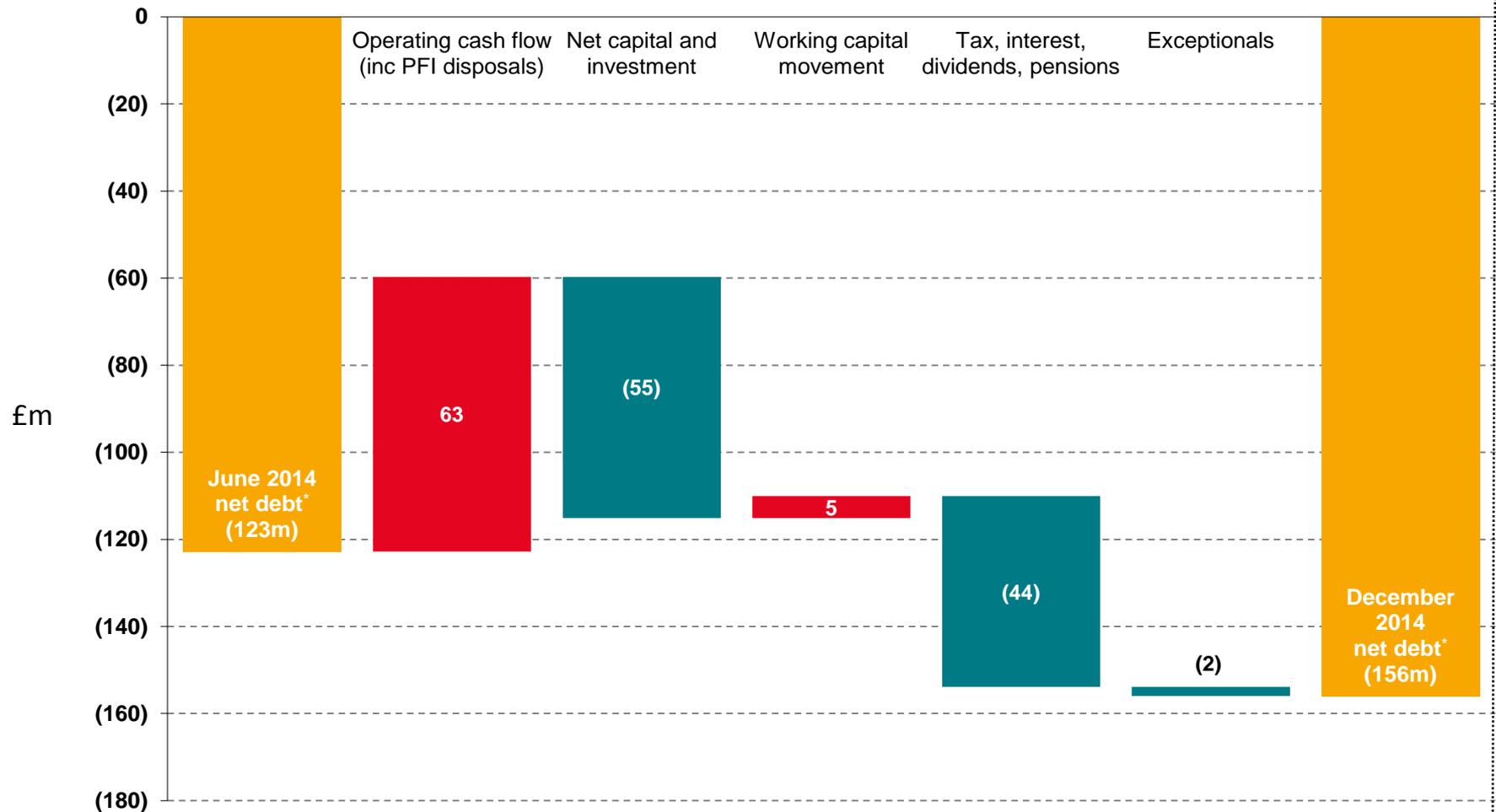
	At 31 December	At 30 June	Change %	At 31 December
	2014 £bn	2014 £bn		2013 £bn
Construction	2.6	2.5	+4	2.5
Services	3.9	3.7	+5	3.6
Total	6.5	6.2	+5	6.1



Balance sheet summary

	At 31 December	At 30 June	Change £m	At 31 December
	2014 £m	2014 £m		2013 £m
Intangible assets	325	324	+1	324
Property, plant and equipment	184	192	-8	192
Investment in JVs	67	41	+26	32
Residential land and work in progress	343	334	+9	260
Other working capital	(240)	(236)	-4	(130)
Cash	150	112	+38	4
Borrowings	(306)	(235)	-71	(142)
Provisions	(90)	(84)	-6	(99)
Pensions (net of deferred tax)	(65)	(48)	-17	(49)
Finance lease obligations	(77)	(87)	+10	(81)
Tax and deferred tax	(6)	(3)	-3	7
Net assets	285	310	-25	318

Group net debt



* Excludes finance lease obligations.

Pensions

	At 31 December	At 30 June	Change £m	At 31 December
	2014 £m	2014 £m		2013 £m

Kier Group Pension Scheme:

Market value of assets	913	837	+76	815
Present value of liabilities	(993)	(900)	-93	(872)
Deficit in the scheme	(80)	(63)	-17	(57)
Deferred tax	16	13	+3	12
Net pension liability	(64)	(50)	-14	(45)
Net effect of Sheffield Pension Scheme	-	-	-	(3)
Net effect of May Gurney and Translinc Schemes	(1)	3	-4	(2)
Total net pension liability	(65)	(47)	-18	(50)
Key assumptions:				
Discount rate	3.7%	4.4%		4.5%
Inflation rate - RPI	3.1%	3.4%		3.5%
Inflation rate - CPI	2.0%	2.4%		2.5%

Financial summary

- Revenues up 11% to almost £1.6bn
- Underlying operating profit in line with consensus at £44m
- Net borrowings materially lower than consensus at £156m
- Interim dividend increased by 7% to 24p
- USPP closed in November 2014 providing an additional £120m of liquidity
- Order book up £300m to £6.5bn in Construction and Services
 - Fully secured for FY15 in Construction and Services
 - 90% forward sold in Residential



Operational update

Haydn Mursell, Chief Executive

Property

Property - Performance



Six months ended 31 December

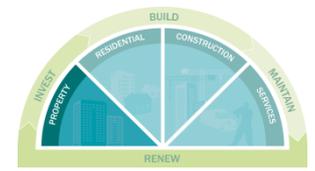
	2014 £m	2013 £m	Change %	Year to June 2014*** £m
Revenue				
Developments	44	40	+11	86
Structured finance and PFI	5	15	-68	16
Total	49	55	-10	102
Operating profit*				
Developments	12.4	7.4	+68	11.2
Structured finance and PFI	1.6	3.2	-50	4.8
Total	14.0	10.6	+32	16.0
Average capital**				
Developments	(76)	67	+13	(70)
Structured finance and PFI	-	5	-96	9
Total	(76)	(62)	+22	(61)

* Excluding one-off costs related to restructuring, acquisitions and business closures.

** Equates to average net debt.

*** Prior year comparatives have been represented to reflect the split of the Property division into Property (PFI and Structured Finance) and Residential.

Property - Developments



- Strong and improving contribution
 - >15% return on capital achieved on eight key completed schemes
 - Operating profit of £14m
 - Maintain predominately non-speculative approach
- Pipeline of >£1bn including
 - 60,000 sq ft office in Hammersmith in JV with Investec
 - 93,000 sq ft office development in Leeds city centre
 - 62,000 sq ft leisure centre, Walsall
- Preferred bidder for a major new £400m ten-year Strategic Property Partnership with Staffordshire County Council
- Generating revenue for Construction division and accessing Services division relationships



58 Victoria Embankment, London



Sovereign Square, Leeds

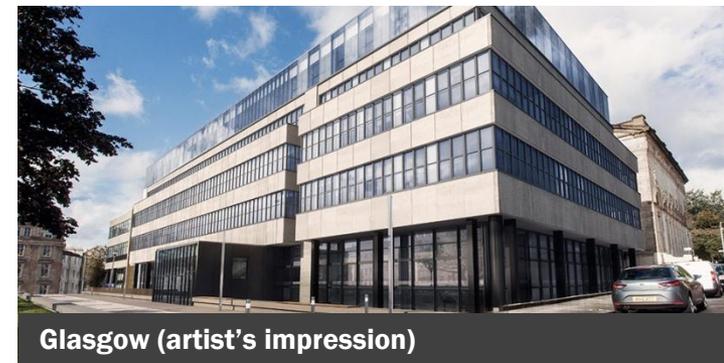


Walthamstow

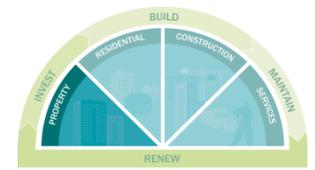
Property - Structured finance & PFI



- Continue to recycle assets as they become available for sale
 - Sale of Oldham Library project generating £2.4m
- Maintained eight PFI projects valued at £38m in portfolio (7.5% discount rate valuation)
- Student accommodation opportunities
 - Amber infrastructure JV established
 - £20m Glasgow scheme
 - Further opportunities
 - Newcastle
 - Coventry



Property - Outlook



- Strong occupier demand and an active investor market
- Maintain risk-managed approach
- Re-invest the Group's free cash flow as it becomes available
- Continue to target a minimum 15% return on capital
- Replenished development and structured finance pipeline of >£1bn
- Continue to recycle structured finance investments
- Critical skillset for integrated offering

Residential

Residential - Performance



	Six months ended 31 December			
	2014 £m	2013 £m	Change %	Year to June 2014*** £m
Revenue				
Private (Kier owned land)	52	49	+6	111
Mixed tenure	38	23	+65	71
Total	90	72	+25	182
Operating profit*				
Private (Kier owned land)	1.4	1.0	+40	1.8
Mixed tenure	(0.6)	(0.5)	+20	3.2
Total	0.8	0.5	+60	5.0
Average capital**				
Private (Kier owned land)	(218)	(206)	+6	(213)
Mixed tenure	(36)	(13)	+177	(20)
Total	(254)	(219)	+16	(233)
Homes	3,643	4,168	-13	3,672

* Excluding one-off costs related to restructuring, acquisitions and business closures.

** Equates to average net debt.

*** Prior year comparatives have been represented to reflect the split of the Property division into Property (PFI and Structured Finance) and Residential.

Residential - Mixed tenure



- On track to deliver 1,500 completions in FY15
 - Completed 436 units to 31 December
 - Second half weighted due to AHP timing
- Good flow of opportunities from HCA, LAs and HAs
- Success on two local four-year authority frameworks; the Westworks framework covering the south and south west of England and South Wales and the Westward framework for Devon and Cornwall
- Average invested capital increased to £37m
 - 87% secured for 2015
 - Forward pipeline of >£350m (2,597 plots)

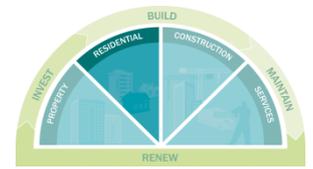


Balaamwood, Birmingham



Manor Kingsway, Derby

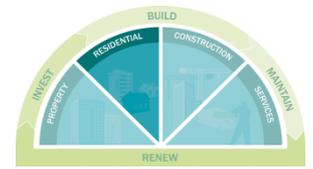
Residential - Private (Kier owned land)



- On track to deliver c700 private homes on our land
 - Completed 274 homes to 31 December
- Trading at 0.7 unit sales per week
- New trading sites and marketing complexes are due to open before the end of the financial year
- Strong forward sales position
 - 90% secured for 2015



Residential - Outlook



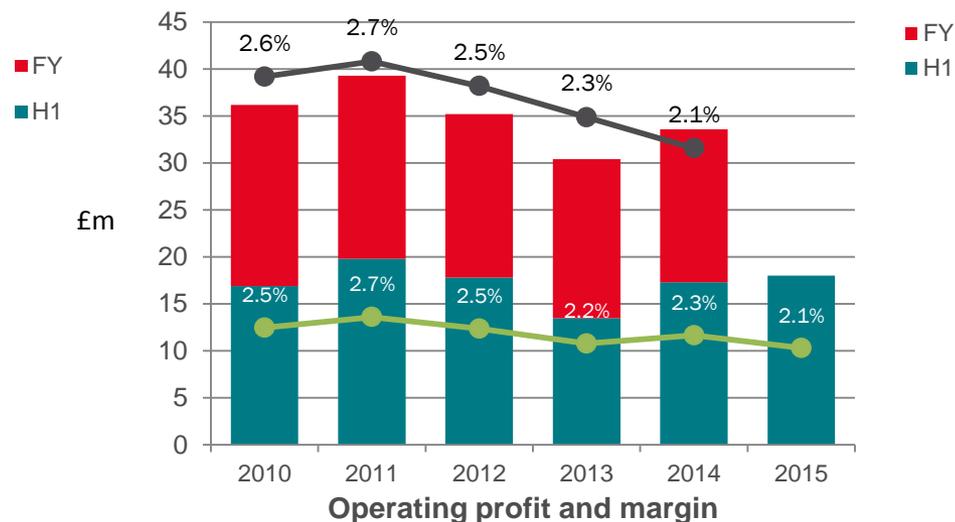
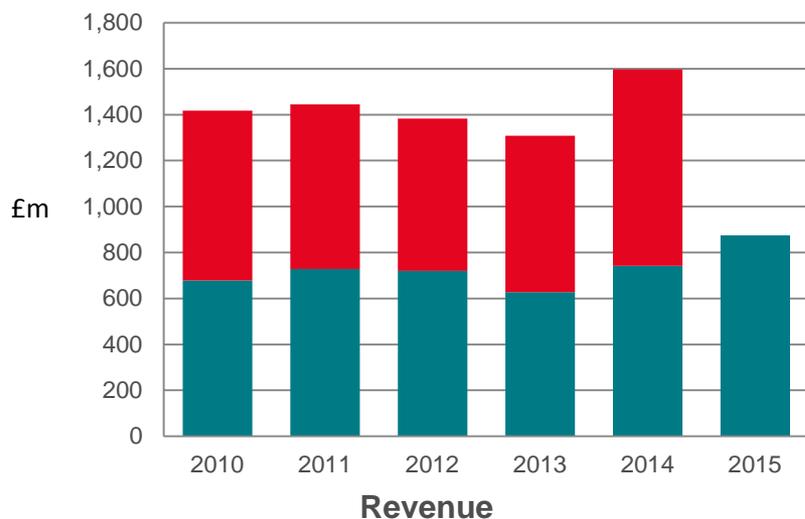
- Focus on mixed tenure growth
 - Respond to UK supply/demand imbalance
 - Recycle our private land bank capital
 - Capital retained at £250m over the medium term
- Focused on return on capital of 15% by 2020
- Increased number of opportunities from HCA, LAs and HAs
- Easing of supply chain pressures
- Critical skillset, combined with Property, for many clients

Construction

Construction - Performance



	Six months ended 31 December		Change %	Year ended June 2014
	2014 £m	2013 £m		£m
Revenue	874	742	+18	1,597
Operating profit*	18.0	17.3	+4	33.6
Operating margin*	2.1%	2.3%		2.1%
Order book (secure and probable)	2.6bn	2.5bn	+4	2.5bn



* Excluding one-off costs related to restructuring, acquisitions and business closures, amortisation of contract right costs held as intangibles on the balance sheet and unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition.

Construction - Sectors



Sector	Revenue		
	Year to June 2014	Expectation June 2015	Future trend
Education	24%	26%	↗
Health	8%	11%	↗
Transportation	12%	10%	↔
Commercial, residential and mixed use	22%	19%	↗
Power, industrial, utilities and waste (incl. nuclear)	14%	12%	↗
International	10%	11%	↗
Defence	1%	1%	↔
Other (inc blue light/hotel/leisure/retail)	9%	10%	↔

Construction - UK Building



- Strong performance with increased market share in education and health sectors
- Framework focus
 - Place on all six lots of EFA framework
 - Preferred bidder for five batches under the National Constructor Framework, £173m
 - Preferred bidder for three PSBP opportunities in Brent, London and Yorkshire, £160m
 - P21+ awards of >£118m in United Lincoln, Milton Keynes, Royal Cornwall and Birmingham Women's hospitals
- Growing activity in commercial, residential, defence and biotech
 - Kings Cross office scheme, £70m
 - Victoria Embankment development, £58m
 - Cambridge biotech laboratory, £70m



Whitefriars Community School



Burnley General Hospital



Gateway Student Accommodation, Lincoln

Construction - UK Infrastructure



- Expanding business model
 - Underpinned by Government support and investment plans
- Transport
 - Awarded a place on the Highways Agency's £1.15bn five-year collaborative delivery framework for schemes valued between £25m and £100m
 - Network Rail Western and Wales regional framework and level crossing framework
 - Mersey Gateway progressing well and Crossrail activity to 2017
 - £33m upgrade to the A30
- Power
 - Hinkley, Urenco, Sellafield
 - Energy from Waste
- Utilities
 - Deephams WWTW progressing well
 - Capital and maintenance capabilities
- Excellent long term revenues and visibility



Mersey Gateway



Hinkley



Crossrail

Construction - International



- Strong performance
 - Secured £150m new work
- Middle East market buoyant
 - UK Export Finance funding
- Awards include
 - Hotel and spa in Dubai and a data centre for a leading UAE bank
 - Preferred bidder for a £100m mixed-use development
 - Two infrastructure contracts totalling £15m on a major new leisure park project
 - In Saudi Arabia, a £32m infrastructure project has been secured with a leading Saudi state-owned company

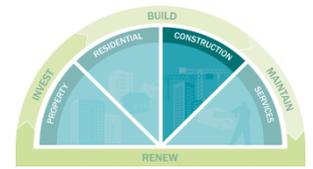


Saadiyat Rotana Hotel & Resort, Abu Dhabi



Dubai University

Construction - Outlook



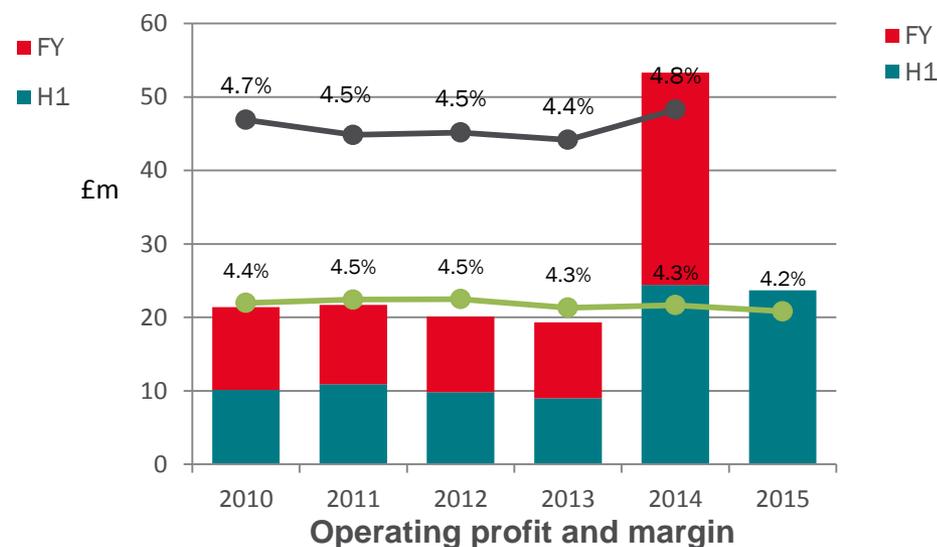
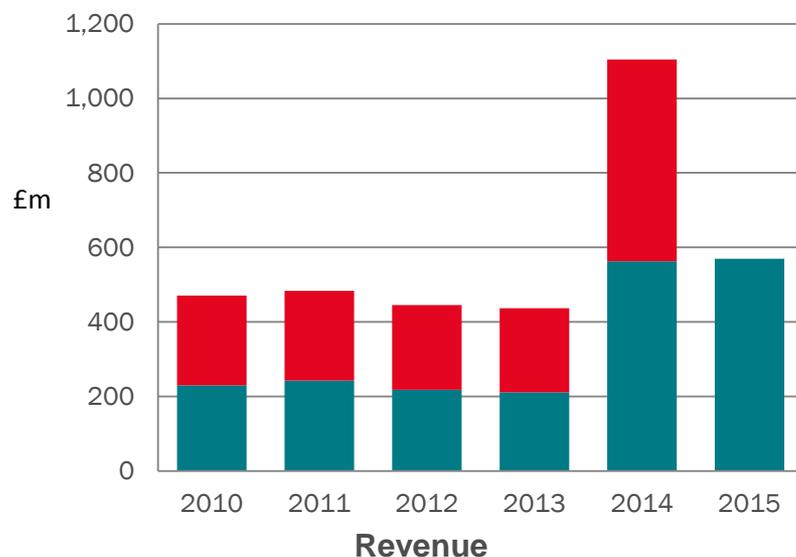
- Strong performance
- Order book of secured or probable work increased to £2.6bn, represents 100% of the forecast revenue for FY15
- UK market growth of 5% per annum
 - Unrivalled regional coverage
 - Success on frameworks
 - Continued strong risk management
 - Government focus on infrastructure
- International growth potential
- Controlled expansion and improving margins

Services

Services - Performance



	Six months ended 31 December		Change %	Year ended June 2014
	2014 £m	2013 £m		£m
Revenue	569	563	+1	1,104
Operating profit*	23.7	24.4	-3	53.3
Operating margin*	4.2%	4.3%		4.8%
Order book (secure and probable)	3.9bn	3.6bn	+8	3.7bn



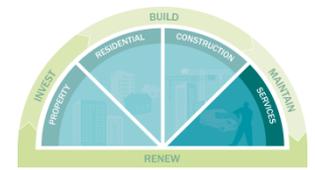
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May Gurney operational update



- Integration complete
- New contract wins from broader capability offering:
 - Thames Water
 - £1bn infrastructure alliance
 - Anglian Water
 - £200m of total contract wins
 - Northamptonshire Strategic Partnership
 - £200m Highways maintenance extended
 - Strategic partnership involves entire Group
- More strategic opportunities available

Services - Sectors



Sector	Revenue		
	Year to June 2014	Expectation June 2015	Future trend
Highways	25%	21%	↗
Housing maintenance - public	21%	23%	↔
Housing maintenance - private	5%	9%	↗
Utilities and other regulated	22%	25%	↗
Environmental	12%	10%	↔
Facilities Management (FM)	12%	11%	↗
Fleet & Passenger Services (FPS)	3%	1%	↔

Services - Utilities and Highways Maintenance

Utilities

- AMP6 success totalling more than £700m
 - Thames Water 15-year £1bn alliance commencing April 2015
 - £200m 3-5 year contracts with Anglian Water
 - Five-year £100m network maintenance services programmes with Bristol Water
 - Six-year £180m Canal & River Trust National Engineering & Construction Contract (NECC) for England and Wales
 - Preferred bidder for a two-year £14m contract with Severn Trent on the Asset Management Solutions (AMS) framework, with a possible five-year extension
- One year £7m extension to the Scotia Gas Networks maintenance contract

Highways

- Successful mobilisation of Suffolk County Council highways contract
- £200m four-year extension of the highways services contract with Northamptonshire County Council
- Lincolnshire highways one-year £37m extension
- Highways Agency opportunities targeted



Thames Water



Surrey highways



Northamptonshire highways

Services - Housing Maintenance & FM

Housing

- Successful mobilisation of four-year £140m repairs and maintenance contract with Genesis Housing Association covering 33,000 private properties
- Sheffield City Council £30m five-year contract to provide roofing maintenance works
- Barnsley Council £55m five-year extension repair and maintenance contract

FM

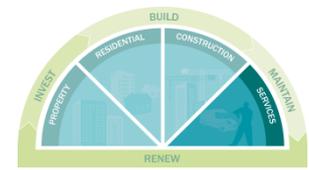
- Steady progress
- Awards: £4m Kent County Council, £1m Solent NHS, £1m London Borough of Camden
- Retained: £3m Fusion Lifestyle, £2m Westminster Kingsway
- Mobilised: two PFIs - London Fire Brigade and Stoke and Staffordshire Fire Rescue Authority

Other

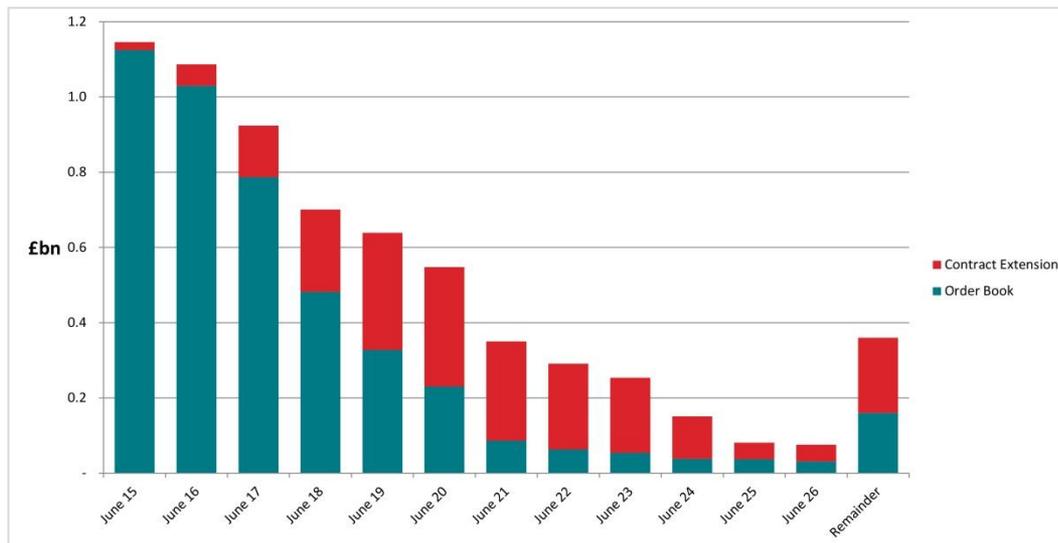
- Environmental businesses remain stable but challenging
- FPS under review and discussions with third parties underway



Services - Outlook



- May Gurney capabilities contributing to bid success
- Increased Government investment in utilities and highways
- Fiscal pressures provide outsourcing opportunities
- Greater volume, albeit margins likely to tighten



- All of targeted revenue secured and probable for 2015
- Extensions could add £2bn to the order book

- Breadth of services to be leveraged across the whole Group
 - Integrated offering
 - Unique position

Group Outlook

- Good set of results with net debt better than forecast
- Economy recovering but fragility and uncertainty still exist
- Encouraging level of new opportunities
 - Solid Property and Residential pipelines
 - Improving Construction and Services order books
- Robust capital structure
- Well positioned for 2015 and over the medium term
- Confidence highlighted by interim dividend up 7% to 24p



Appendices

Residential - Key financials breakdown

		Dec 2014	Dec 2013	June 2014
Revenue				
Private	New Land	10	-	4
	Old Land	42	49	107
Mixed Tenure		38	23	71
Total		90	72	182
Operating profit				
Private	New Land	0.9	-	0.3
	Old Land	0.5	1.0	1.5
Mixed Tenure		(0.6)	(0.5)	3.2
Total		0.8	0.5	5.0
Average capital*				
Private	New Land	44	18	23
	Old Land	174	188	190
Mixed Tenure		36	13	20
Total		254	219	233
ROACE**				
Private	New Land	4.1%	0.1%	1.4%
	Old Land	0.5%	1.1%	0.8%
Mixed Tenure		-3.3%	-7.4%	16.5%
Total		0.6%	0.5%	2.2%

* Equates to average net debt.

** Return on average capital employed.

Financing facilities

			Dec 2014	June 2014	Maturity
Facility type			£m	£m	
US Private Placements			183	63	2019, 2021, 2022, 2024
Syndicated term loan			50	50	2016
Revolving credit facility			190	190	2018
Funding for Lending Scheme loan			30	30	2017
Overdraft			45	45	
Asset finance			109	121	
Total			607	499	

Property PFI portfolio

	Project	Status	Capital value £m	Kier equity/loan stock £m	Equity %
Local authority	Woking housing	In construction	31	2.0	50.0
Student accommodation	Salford University	In construction	64	2.1	25.0
Education	East Ayrshire Schools	Preferred Bidder	34	1.0	24.0
	North Ayrshire Schools	Preferred Bidder	36	1.0	24.0
	South Ayrshire Schools	Preferred Bidder	25	0.8	24.0
Blue light	Police Investigation Centres	Operational	60	8.0	100
	London fire stations	In construction	44	2.1	50.0
	Stoke and Staffordshire Fire Stations	In construction	29	2.3	80.0

Committed Investment

£19.3m

Of the £19.3m committed, £10.3m has been invested to date
Directors' valuation at 7.5% is £37.7m

Current services bid pipeline

Customer	Sector	Annual Value (£m)	Duration (years)	Potential Gross (£m)	Start date	Comments
Severn Trent Water	Utilities	45	5	225	2015	
South West Water- DG3	Utilities	28	5	140	2015	
Scottish Water	Utilities	18	5	90	2016	Extension
Birmingham City Council	Housing maintenance	25	4	100	2015	
Croydon Council	Housing maintenance	12	5+	60	2016	
LB of Southwark	Housing maintenance	10	4	40	2015	
Highways Agency (Area 7)	Highways	50	5+	250	2016	
Buckinghamshire County Council	Highways	45	5+	225	2017	
Somerset County Council	Highways	50	3+	150	2017	
Hampshire County Council	Highways	33	7	230	2017	
Surrey County Council	Highways	40	4	160	2021	Extension

