

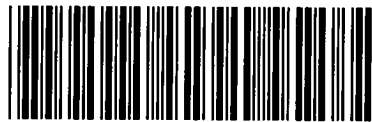
Registration number: 01006026

McNicholas Construction (Holdings) Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2019

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McNicholas Construction (Holdings) Limited

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McNicholas Construction (Holdings) Limited

Company Information

Directors	B S McNicholas L. Woodall
Company secretary	P Higgins
Registered office	81 Fountain Street Manchester M2 2EE
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

McNicholas Construction (Holdings) Limited
Strategic Report for the Year Ended 30 June 2019

The directors present their strategic report for McNicholas Construction (Holdings) Limited (the "Company") for the year ended 30 June 2019.

Fair review of the business

The Company is a member of the Kier Group plc ("Kier") group of companies (the "Kier Group" and the "Group").

The principal activity of the Company is that of a holding company for an infrastructure services provider which designs, builds and renews utilities for infrastructure owners, utility providers and developers.

The Company made a loss before tax in the year of £261,000 (2018: £1,362,000). The Company's net liabilities have increased to £2,529,000 from to £2,156,000 due to the loss in the year and an actuarial loss on the Company's defined benefit scheme in the year.

The Company is expected to continue as a non-trading holding company for the foreseeable future. Therefore, the directors do not use any specific KPIs to measure the performance of the Company.

Corporate responsibility

The Kier Group attaches great importance to its corporate responsibility, as evidenced in the Sustainability section in the Kier Group plc 2019 Annual Report and in its Corporate Responsibility update for 2019, available at www.kier.co.uk. As a member of the Kier Group, the Company abides by the same principles.

McNicholas Construction (Holdings) Limited

Strategic Report for the Year Ended 30 June 2019 (continued)

Principal risks and uncertainties

The principal risks and uncertainties of the Company, including financial risk and management, are consistent with the principal risks of the Kier Group and are not managed separately.

Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are disclosed in Kier Group plc's annual report for the year ended 30 June 2019

Financial Instruments

Objectives and policies

The Board is responsible for the Company's system of risk management and internal controls and for ensuring that significant risks are identified and appropriately managed. The Board has delegated the review of the effectiveness of the Company's risk management processes to the Kier Group Risk Management and Audit Committee ("RMAC"), including the systems established to identify, assess, manage and monitor risk. The risks faced by the Company are reviewed by the RMAC on a quarterly basis.

On behalf of the Board, the RMAC identifies the risks that it considers most likely, without effective mitigation, to have an impact on the Company and its strategic priorities. If emerging risks are identified in between these annual reviews, these are incorporated immediately into the risk management process. The principal risks as relevant to the Company are set out below, together with a summary of the actions taken to mitigate each risk.

Price risk, credit risk, liquidity risk and cash flow risk

The Company relies on Kier Group borrowing and bonding facilities. Without these, profit would reduce.

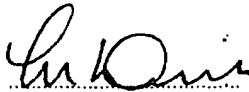
Cash flow is forecast regularly to provide up-to-date and accurate information on the Company's current cash position and its future requirements. Kier Group level borrowing facilities have been recently renegotiated and extended. The Kier Group has strong, long-term relationships with providers of its bonding lines and has an in-house team which monitors headroom and advises on bond terms and conditions.

The Company is not subject to material price or credit risks.

Brexit

The UK left the EU on 31 January 2020, with a transition period currently running to 31 December 2020. Currently, the UK's long-term relationship with the EU remains unclear. The Group has identified potential risks relating to, for example, the supply chain, the workforce and the supply and cost of materials and has set up contingency plans in respect of these risks. The Group keeps these plan under review, in light of political developments. In particular, the Group continues to work with its supply chain to develop plans to ensure continuity of potentially critical supplies and has developed plans with respect to those members of its workforce who are nationals of EU member states and wish to continue to work in the UK.

Approved by the Board on 29 September 2020 and signed on its behalf by:



I. Woodall
Director

McNicholas Construction (Holdings) Limited

Directors' Report for the Year Ended 30 June 2019

The directors of McNicholas Construction (Holdings) Limited (the "Company") present their report and the audited financial statements for the year ended 30 June 2019.

Directors of the Company

The directors who held office during the year and up to the date of signing these financial statements were as follows:

G M Denton (resigned 31 December 2018)

B S McNicholas

R Picken (resigned 3 December 2018)

M J Jones (resigned 12 February 2020)

T L Foreman (appointed 11 December 2018 and resigned 31 August 2020)

L Woodall (appointed 17 September 2020)

Financial instruments

Objectives and policies

The Board is responsible for the Company's system of risk management and internal controls and for ensuring that significant risks are identified and appropriately managed. The Board has delegated the review of the effectiveness of the Company's risk management processes to the Kier Group Risk Management and Audit Committee ("RMAC"), including the systems established to identify, assess, manage and monitor risk. The risks faced by the Company are reviewed by the RMAC on a quarterly basis.

On behalf of the Board, the RMAC identifies the risks that it considers most likely, without effective mitigation, to have an impact on the Company and its strategic priorities. If emerging risks are identified in between these annual reviews, these are incorporated immediately into the risk management process.

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The Company relies on Kier Group borrowing and bonding facilities. Without these, profit would reduce.

Cash flow is forecast regularly to provide up-to-date and accurate information on the Company's current cash position and its future requirements. The Kier Group has strong, long-term relationships with the providers of its bonding lines and has an in-house team which monitors headroom and advises on bond terms and conditions.

The Company is not subject to material price or credit risks.

McNicholas Construction (Holdings) Limited

Directors' Report for the Year Ended 30 June 2019 (continued)

Safety, health and environment

The Kier Group Safety, Health and Environment ('SHE') committee continues to oversee the progress of the Group's behavioural change programme, which aims to embed good safety behaviours and further improve the safety culture within the Group. The health of our employees, both physical and mental, is integral to the Group's culture and is of the utmost importance.

The role of the SHE committee includes:

- (i) reviewing the Group's strategy with respect to SHE matters and challenging management to implement it;
- (ii) encouraging management's commitment and accountability with respect to managing the Group's SHE risks;
- (iii) reviewing and, as necessary, approving material Group-wide SHE initiatives, policies and procedures; and
- (iv) reviewing the Group's exposure to SHE risks and monitoring performance against SHE targets.

For further information on Kier Group's activities with regards to SHE matters, please see the Kier Group plc 2019 Annual Report (available at www.kier.co.uk).

Future developments

The Company's future developments are set out in the Business Review section of the Strategic Report.

McNicholas Construction (Holdings) Limited

Directors' Report for the Year Ended 30 June 2019 (continued)

Going Concern

The Directors are required to consider the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.

In the period after the balance sheet date and before the signing of these accounts, the Company's performance, along with the entire Kier Group's performance, was adversely affected by the effects of the COVID-19 pandemic. Although the Group's sites remained open through this period, with a number of decisive management actions taken to mitigate against the majority of the effect of the pandemic, COVID-19 has adversely affected the Group's revenue and resulted in it incurring additional costs. This has resulted in a lower level of profitability for the 2020 financial year and an increase in the Group's net debt position.

At 30 June 2020, the Group had £892m of unsecured committed facilities, £20m of uncommitted overdrafts and £125m drawn against uncommitted supply chain financing facilities. In order to provide financial flexibility for the Group following COVID-19, the Group:

- Agreed waivers with its lenders in respect of the financial covenants within the Group's principal debt facilities for the test period ended 30 June 2020;
- Has agreed revised financial covenants under its principle debt facilities which will apply for the going concern period;
- Agreed with HMRC a deferral of the payment of certain amounts in respect of VAT and PAYE until March and June 2021 respectively; and
- Has agreed with its pension trustees a material reduction in the scheme deficit repayments

The current trading environment remains uncertain, principally due to the potential impact of COVID-19, which makes forecasting challenging.

The Directors of the Kier Group have reviewed the Group's short term cash flow forecasts to 31 December 2021 (the going concern period), which have been prepared using certain key assumptions and including a number of stressed, but plausible, downside scenarios. These scenarios include a consideration of the risks which may arise to the Group's available liquidity and its ongoing compliance with the revised financial covenants within the Group's principal debt facilities as a result of, or in light of, the following factors or circumstances:

- The availability of supply chain finance;
- Potential reductions in trading volumes;
- Potential margin erosion;
- Risks in respect of certain specific projects;
- The Group's ability to conclude its cost reduction plan as forecast; and
- The completion of the sale of Kier Living, following the delay in the sale process which was due, in particular, to COVID-19

The impact that a second wave of COVID-19 would have on the Group's cashflows, using the financial impact of the initial outbreak as the basis of the assessment, was also considered.

The Kier Group Board also considered the macroeconomic and political risks affecting the UK economy, including Brexit. Brexit has the potential to disrupt the Group's operations, particularly in relation to materials, people and the supply chain. The Group has established a 'Brexit task force' and has in place business continuity plans to mitigate the risks associated with Brexit. The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered likely to remain largely unaffected by macroeconomic factors. In addition, significant cost reductions have already been taken to improve the Group's profitability.

McNicholas Construction (Holdings) Limited

Directors' Report for the Year Ended 30 June 2019 (continued)

The Board considered the Group's ability to manage its working capital, in order to mitigate the potential impact on the Group's liquidity over the forecast period, in particular at the lowest point under the downside scenarios in the Spring of 2021, in the event of circumstances described above taking place. This, together with the agreements with the lenders and the pension trustees, and the other measures which have been taken during the year mean that the Group would be expected to continue to have available liquidity headroom under its existing finance facilities and operate within the revised financial covenants over the going concern period.

The Group Directors have committed to support the Company over a period of at least 12 months from the signing of the financial statements.

On the basis of the financial support made available from the Group, and the Group's ability to provide this support, the Board is satisfied that the Company has sufficient financial resources to continue to operate for a period of at least 12 months and therefore it has adopted the going concern basis in preparing the Company's 2019 financial statements.

Directors' liability insurance

The articles of association of the Company entitle the directors of the Company, to the extent permitted by the Companies Act 2006 and other applicable legislation, to be indemnified out of the assets of the Company in the event that they suffer any expenses in connection with certain proceedings relating to the execution of their duties as directors of the Company.

In addition, Kier maintains insurance for the directors and officers of companies within the Kier Group to cover certain losses or liabilities to which they may be exposed due to their office.

Reappointment of independent auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is earlier.

Disclosure of information to the auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 29 September 2020 and signed on its behalf by:



I. Woodall
Director

McNicholas Construction (Holdings) Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

McNicholas Construction (Holdings) Limited

Independent Auditors' Report to the Members of McNicholas Construction (Holdings) Limited

Report on the audit of the financial statements

Opinion

In our opinion, McNicholas Construction (Holdings) Limited's financial statements:

- give a true and fair view of the state of the Company's affairs as at 30 June 2019 and of its loss for the year then ended;
- 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 June 2019; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

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 Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report 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 on, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

McNicholas Construction (Holdings) Limited

Independent Auditors' Report to the Members of McNicholas Construction (Holdings) Limited (continued)

Reporting on other information (continued)

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, ISAs (UK) require us also to report certain opinions and matters as described below.

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 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

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 8, 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for financial statements and the audit

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.

McNicholas Construction (Holdings) Limited

**Independent Auditors' Report to the Members of McNicholas Construction (Holdings)
Limited (continued)**


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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



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Diane Walmsley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

Date: 29 September 2020

McNicholas Construction (Holdings) Limited

Income Statement for the Year Ended 30 June 2019

		Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
	Note		
Other operating income	4	(70)	1,721
Loss on disposal of investments		-	(2,822)
Operating loss		(70)	(1,101)
Finance costs	5	(191)	(261)
Loss before tax		(261)	(1,362)
Tax on loss	9	78	(257)
Loss for the financial year		(183)	(1,619)

The above results were derived from continuing operations.

McNicholas Construction (Holdings) Limited

Statement of Comprehensive Income for the Year Ended 30 June 2019

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Loss for the Financial year	<u>(183)</u>	<u>(1,619)</u>
Items that will not be reclassified subsequently to profit or loss		
Actuarial (losses)/gains on defined benefit pension scheme	(229)	2,063
Deferred tax on actuarial (losses)/gains	<u>39</u>	<u>(351)</u>
	<u>(190)</u>	<u>1,712</u>
Total comprehensive (expense)/income for the year	<u><u>(373)</u></u>	<u><u>93</u></u>

McNicholas Construction (Holdings) Limited
(Registration number: 01006026)
Statement of Financial Position as at 30 June 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Investments	10	1,000	1,000
Deferred tax assets	9	1,148	1,262
		<u>2,148</u>	<u>2,262</u>
Current assets			
Trade and other receivables	11	2,066	3,270
Cash and cash equivalents	12	7	69
		<u>2,073</u>	<u>3,339</u>
Total assets		<u>4,221</u>	<u>5,601</u>
Current liabilities			
Trade and other payables	14	-	(332)
Non-current liabilities			
Retirement benefit obligations	13	(6,750)	(7,425)
Total liabilities		<u>(6,750)</u>	<u>(7,757)</u>
Net liabilities		<u>(2,529)</u>	<u>(2,156)</u>
Equity			
Called up share capital	15	359	359
Capital redemption reserve		233	233
Profit and loss account		(3,121)	(2,748)
Total equity		<u>(2,529)</u>	<u>(2,156)</u>

The financial statements on pages 12 to 30 were approved by the Board of Directors on 29 September 2020 and signed on its behalf by:



I. Woodall
Director

McNicholas Construction (Holdings) Limited

Statement of Changes in Equity for the Year Ended 30 June 2019

	Called up share capital £ 000	Capital redemption reserve £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 July 2017	359	233	(2,841)	(2,249)
Loss for the financial year	-	-	(1,619)	(1,619)
Other comprehensive income	-	-	1,712	1,712
Total comprehensive income for the year	-	-	93	93
At 30 June 2018	359	233	(2,748)	(2,156)

	Called up share capital £ 000	Capital redemption reserve £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 July 2018	359	233	(2,748)	(2,156)
Loss for the financial year	-	-	(183)	(183)
Other comprehensive expense	-	-	(190)	(190)
Total comprehensive expense for the year	-	-	(373)	(373)
At 30 June 2019	359	233	(3,121)	(2,529)

The notes on pages 16 to 30 form an integral part of these financial statements.

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019

1 General information

The Company is a private company limited by share capital incorporated and domiciled in the United Kingdom.

The address of its registered office is:

81 Fountain Street

Manchester

M2 2JE

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework and with the Companies Act 2006, applicable to companies using FRS101.

The financial statements have been prepared on the historical cost basis.

The presentation currency used is GB Pound Sterling and figures are quoted to the nearest £1,000.

Summary of disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS101:

IAS 7: Complete exemption from preparing a cash flow statement and related notes:

IFRS 2: Exemption from certain disclosures in respect of share based payments for arrangements involving equity instruments of another Group entity:

IAS 8: The listing of new or revised standards that have not been adopted (and information about their likely impact) has been omitted:

IAS 36: Exemption from disclosures for each cash generating unit which contains goodwill, in particular in relation to assumptions and sensitivities:

IFRS 7: Complete exemption from all of the disclosure requirements of IFRS 7, Financial Instruments, other than for those instruments where these disclosures are still required to comply with the law:

IFRS 13: Complete exemption from all of the disclosure requirements of IFRS 13, Fair value measurement:

IAS 24: Exemption from disclosure of related party transactions entered into between two or more members of a group, provided that any subsidiary party to the transaction is wholly owned by such a member:

IAS 24: Exemption from disclosure of compensation for key management personnel and amounts incurred by an entity for the provision of key management personnel services that are provided by a separate management entity:

IAS 1: Exemption from comparatives for movements on property, plant & equipment, intangible assets and share capital; and

IFRS 15: Exemption from certain disclosures in respect of revenue from contracts with customers.

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Going concern

The directors believe that preparing the financial statements on the going concern basis is appropriate due to the continued financial support of the Company's ultimate parent company, Kier Group plc. The directors have received a letter from the directors of Kier Group plc, pledging support to allow the Company to meet its obligations. Further details on the going concern assessment are included in the Directors report on page 6.

Changes in accounting policy

The following new standards, amendments to standards and interpretations are effective for the financial year ended 30 June 2019 onwards:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- Amendments to IFRS 2 'Share-based Payments'
- Amendments to IFRS 4 'Insurance Contracts'
- Amendments to IAS 40 'Investment Property'
- Annual Improvements to 2014-2016 cycle
- IFRS 1 and IAS 28 amendments
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

None of the above new standards, amendments to standards or interpretations have had a material effect on the financial statements.

Finance costs

Finance costs arise on the defined benefit pension scheme and represents the interest charged on the scheme liabilities less the interest earned on the scheme assets.

Tax

The tax expense for the period comprises deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Investment in subsidiaries

Investments in subsidiaries are measured at cost less accumulated impairment in the individual financial statements.

Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the company will not be able to collect all amounts due according to the original terms of the receivables.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

Defined benefit pension obligation

The company operates a defined benefit pension scheme and the pension charge is based on a full actuarial valuation dated 31 March 2017.

Scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality corporate bond rates. The net surplus or deficit is presented separately from other net assets on the balance sheet. Deferred tax on the net surplus or deficit is included as a non-current asset in the balance sheet. A net surplus is recognised only to the extent that it is recoverable.

The current service cost and costs from settlements and curtailments are charged against operating profit. Past service costs are spread over the period until the benefit increases vest. Interest on the scheme liabilities and the expected return on scheme assets are included in other finance costs. Actuarial gains and losses are reported in other comprehensive income.

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

2 Accounting policies (continued)

Exemption from preparing group financial statements

The financial statements contain information about McNicholas Construction (Holdings) Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its ultimate parent, Kier Group plc, a company incorporated in England and Wales.

3 Critical accounting judgements and key sources of estimation uncertainty

To be able to prepare financial statements according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board of directors believe are reasonable under the circumstances. The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

Areas requiring critical judgement that may significantly impact on the Company's earnings and financial position area as follows:

Defined benefit pension obligation

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost/income for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Company determines the appropriate discount rate at the end of each period. This is the interest rate that should be used to determine the present value of estimated future cash flows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Company considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in note 13.

4 Other operating income

The analysis of the Company's other operating income for the year is as follows:

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Defined benefit pension scheme recovery	-	1,649
Past service cost for GMP equalisation	(124)	-
Sundry operating income	54	72
	<u>(70)</u>	<u>1,721</u>

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

5 Finance costs

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Net interest payable on pension scheme	191	261

6 Staff costs

The Company had no employees during the current or prior year.

7 Directors' remuneration

The directors' remuneration for the year is as follows:

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Directors' emoluments	-	19
Fees	-	-
	<u>-</u>	<u>19</u>

None of the directors were employed directly by the Company during the year. The directors were remunerated through other Kier Group companies. Any apportionment of their remuneration by time, in respect of performing their duties as directors of the company, would be immaterial.

8 Auditors' remuneration

The audit fees in the current year were paid on the Company's behalf by Kier Limited (2018 : McNicholas Construction Services Limited). The amount attributable to the Company is approximately £5,000 (2018: £5,000).

9 Income tax

Tax charged/(credited) in the income statement

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

9 Income tax (continued)

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Current taxation		
UK corporation tax	(232)	-
Deferred taxation		
Arising from origination and reversal of temporary differences	172	264
Arising from changes in tax rates and laws	(18)	(28)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	-	21
Total deferred taxation	154	257
Tax (receipt)/expense in the income statement	(78)	257

The tax on loss before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Loss before taxation	(261)	(1,362)
Corporation tax at standard rate	(50)	(259)
Decrease from effect of revenues exempt from taxation	(10)	(13)
Increase from effect of expenses not deductible in determining taxable profit / tax loss	-	536
Deferred tax expense from unrecognised temporary difference from a prior period	-	21
Deferred tax credit relating to changes in tax rates or laws	(18)	(28)
Total tax (credit)/charge	(78)	257

The deferred tax balance as at the year end has been recognised at 17.0% which was the enacted corporation tax rate that was to be effective from 1 April 2020. It has since been confirmed that the rate of Corporation tax will remain at 19% in 2020 and will not reduce to 17% as previously enacted.

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

9 Income tax (continued)

Amounts recognised in other comprehensive (expense)/income

	Before tax £ 000	2019 Tax benefit £ 000	Net of tax £ 000
Remeasurements of post employment benefit obligations (net)	(229)	39	(190)
	Before tax £ 000	2018 Tax (expense) £ 000	Net of tax £ 000
Remeasurements of post employment benefit obligations (net)	2,063	(351)	1,712
Deferred tax			
Deferred tax assets			Asset £ 000
2019			
Pension benefit obligations			1,148
2018			Asset £ 000
Pension benefit obligations			1,262

Deferred tax movement during the year:

	At 1 July 2018 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 30 June 2019 £ 000
Pension benefit obligations	1,262	(154)	39	1,147

Deferred tax movement during the prior year:

	At 1 July 2017 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 30 June 2018 £ 000
Pension benefit obligations	1,870	(257)	(351)	1,262

The Directors consider that there is sufficient certainty of future profits within the Kier Group to enable the recoverability of the deferred tax asset in full and therefore the asset has been recognised in the financial statements.

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

10 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 July 2018	1,186
At 30 June 2019	<u>1,030</u>
Provision	
At 1 July 2018	186
At 30 June 2019	<u>30</u>
Carrying Value	
At 1 July 2018	1,000
At 30 June 2019	<u><u>1,000</u></u>

Details of the subsidiaries as at 30 June 2019 are as follows:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2019	2018
McNicholas Construction Services Limited	Utility & Civils Contractor	81 Fountain Street, Manchester, M2 2EE, England and Wales	100%	100%
Leyden Transport Limited	Dormant	81 Fountain Street, Manchester, M2 2EE, England and Wales	100%	100%

Leyden Transport Ltd was dissolved on 19 August 2020.

11 Trade and other receivables

	2019	2018
	£ 000	£ 000
Receivables from related parties	1,833	3,150
Other receivables	<u>233</u>	<u>120</u>
Total current trade and other receivables	<u><u>2,066</u></u>	<u><u>3,270</u></u>

Current amounts due from related parties are unsecured, repayable on demand with an interest rate of 0%.

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

12 Cash and cash equivalents

	2019	2018
	£ 000	£ 000
Cash at bank	<u>7</u>	<u>69</u>

13 Retirement benefit obligations

Defined benefit pension schemes

McNicholas Constructions (Holdings) Limited Pension Scheme

The Company operates a final salary defined benefit pension scheme. The assets of the scheme are held in trust separate from the assets of the Company.

The trustees are responsible for decisions and holding the assets, and delegate day-to-day decisions to independent professional investment managers.

The Scheme is closed to new members and was closed to future accrual for existing members on 30 April 2012. Hence, there were no active members of the scheme as at 31 March 2017 and therefore no contributions were required for future service benefit accrual.

As part of the 31 March 2017 valuation, a recovery plan dated 27 June 2018 was prepared by the trustees after obtaining advice of the scheme actuary. To eliminate the funding shortfall of £5.7m the trustees and the Company agreed that the Company will pay contributions to 31 March 2022 when the funding shortfall is expected to be eliminated. All expenses of the scheme, including the PPF levies, are payable by the Company.

Contributions payable to the pension scheme at the end of the year are £Nil (2018 - £Nil).

The expected contributions to the plan for the next reporting period are £1,176,000.

The scheme was most recently valued on 31 March 2017. The market value of the scheme's assets at that date was £21.1m which represented approximately 79% of the benefits that had accrued to members at that date, after allowing for future increases in pensionable salaries.

On 26 October 2018, the High court ruled in the Lloyds Banking Group case that pension schemes must equalise Guaranteed Minimum Pensions ("GMP") between male and female members. As a result of this ruling, there was a one-off charge of £124,000 to the income statement for the year ended 30 June 2019 in respect of GMP equalisation.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2019	2018
	£ 000	£ 000
Fair value of scheme assets	26,049	22,710
Present value of scheme liabilities	<u>(32,799)</u>	<u>(30,135)</u>
Defined benefit pension scheme deficit	<u>(6,750)</u>	<u>(7,425)</u>

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

13 Retirement benefit obligations (continued)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Fair value at start of year	22,710	21,313
Interest income	643	565
Return on plan assets, excluding amounts included in interest income/(expense)	2,062	(91)
Employer contributions	1,219	1,649
Benefits paid	(585)	(726)
Fair value at end of year	<u>26,049</u>	<u>22,710</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2019 £ 000	2018 £ 000
Corporate bonds	7,897	8,524
Cash and cash equivalents	133	117
Property	121	93
Multi-asset	17,898	13,976
	<u>26,049</u>	<u>22,710</u>

Actual return on scheme's assets

	2019 £ 000	2018 £ 000
Actual return on scheme assets	<u>2,705</u>	<u>474</u>

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

13 Retirement benefit obligations (continued)

	2019	2018
	£ 000	£ 000
Present value at start of year/period	30,135	32,189
Past service cost	124	-
Actuarial gains arising from changes in demographic assumptions	(741)	(364)
Actuarial losses/(gains) arising from changes in financial assumptions	2,984	(1,565)
Actuarial losses/(gains) arising from experience adjustments	48	(225)
Interest cost	834	826
Benefits paid	(585)	(726)
Present value at end of year/period	<u>32,799</u>	<u>30,135</u>

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2019	2018
	%	%
Discount rate	2.30	2.80
Pension increases in deferment	2.00	1.90
Inflation (RPI)	3.10	3.00
Rate of increase in pensions payments liable for limited price indexation - RPI (min 3%, max 5%)	<u>3.60</u>	<u>3.55</u>

Post retirement mortality assumptions

	2019	2018
	Years	Years
Current UK pensioners at retirement age - male	26.00	26.60
Current UK pensioners at retirement age - female	28.00	28.60
Future UK pensioners at retirement age - male	27.50	28.10
Future UK pensioners at retirement age - female	<u>29.60</u>	<u>30.20</u>

The mortality assumptions above assume a retirement age of 60 years (2018: 60 years).

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

13 Retirement benefit obligations (continued)

Amounts recognised in the income statement

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Amounts recognised in operating (loss)		
Past service cost	(124)	-
Amounts recognised in finance income or costs		
Interest on obligations	(834)	(826)
Interest income on plan assets	643	565
Recognised in finance cost	(191)	(261)
Total recognised in the income statement	<u>(315)</u>	<u>(261)</u>

Amounts taken to the Statement of Comprehensive Income

	Year ended 30 June 2019 £ 000	Year ended 30 June 2018 £ 000
Actuarial gains arising from changes in demographic assumptions	741	364
Actuarial (losses)/gains arising from changes in financial assumptions	(2,984)	1,565
Actuarial (losses)/gains arising from experience adjustments	(48)	225
Return on plan assets, excluding amounts included in interest income/(expense)	2,062	(91)
Amounts recognised in the Statement of Comprehensive Income	<u>(229)</u>	<u>2,063</u>

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

13 Retirement benefit obligations (continued)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	2019		2018	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	£ 000	£ 000	£ 000	£ 000
Adjustment to discount rate				
Decrease/(increase) in present value of total obligation	1,400	(1,500)	1,300	(1,400)
	2019		2018	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	£ 000	£ 000	£ 000	£ 000
Adjustment to rate of inflation				
(Increase)/decrease in present value of total obligation	(800)	800	(700)	700
	2019		2018	
	+ 1 Year	- 1 Year	+ 1 Year	- 1 Year
	£ 000	£ 000	£ 000	£ 000
Members assumed to be one year older/younger in age				
Decrease/(increase) in present value of total obligation	1,300	(1,300)	1,100	(1,100)

14 Trade and other payables

	2019	2018
	£ 000	£ 000
Current		
Accrued expenses	-	280
Other payables	-	52
Total current trade and other payables	-	332

15 Called Up Share capital

On 28 January 2019 the Company passed ordinary resolutions to re-designate the 'A' ordinary and 'B' ordinary shares to Ordinary shares of £1 each. The rights attached to the Ordinary shares are as set out in the new Articles of Association of the Company adopted by special resolution on the same date.

Allotted, called up and fully paid shares

	No.	2019 £ 000	No.	2018 £ 000
Ordinary of £1 each	359,009	359	-	-
A Ordinary of £1 each	-	-	116,003	116
B Ordinary of £1 each	-	-	243,006	243
	359,009	359	359,009	359

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

16 Parent and ultimate parent undertaking

The Company's immediate parent is Kier Limited.

The ultimate parent and controlling party is Kier Group plc.

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Kier Group plc, incorporated in England and Wales.

The address of Kier Group plc is:

81 Fountain Street,

Manchester,

M2 2HE

The parent of the smallest group in which these financial statements are consolidated is Kier Limited, incorporated in England and Wales.

The address of Kier Limited is:

81 Fountain Street,

Manchester,

M2 2HE

McNicholas Construction (Holdings) Limited

Notes to the Financial Statements for the Year Ended 30 June 2019 (continued)

17 Parent of group in whose consolidated financial statements the company is consolidated

The name of the parent of the group in whose consolidated financial statements the Company's financial statements are consolidated is Kier Group plc.

These financial statements are available upon request from Companies House and www.kier.co.uk.

18 Non adjusting events after the financial period

Impact of COVID19 on the Financial Statements

Subsequent to the 30 June Balance Sheet date, the world has been impacted by a global pandemic.

This pandemic has had a significant impact on the Kier Group, both operationally and financially. Decisive management actions led to Kier implementing the following self help measures:

- Temporarily closed all sites to ensure that we could operate safely. Through the application of Site Operating Procedures issued by the Construction Leadership Council we were able to keep about 80% of our sites open throughout the period. Currently all sites are now open.
- Asked c.6,500 employees to take a temporary pay reduction for the three months to 30 June 2020. These reductions depended on seniority and ranged between 7.5% to 25%.
- The Group furloughed c.2000 employees through the period. As at 31 July there were none left on furlough.
- The Group also deferred various taxation payments during the period as allowed by the Government.
- All discretionary spend including capital expenditure was reduced to a minimum.
- The closure of the former headquarters at Tempsford Hall in Bedfordshire was brought forward to 30 April 2020 from the previously announced date of 30 June 2020.
- Through strong relationships with the members of our banking syndicate and other debt providers they all agreed waivers to the Group's financial covenants for the year ended 30 June 2020.
- Paused reducing utilisation of the Kier Early Payment Scheme ('KEPS').

The impact of COVID-19 was subsequent to the balance sheet date and has had no impact on the results of the Company for the year ended 30 June 2019. Consideration as to the impact on the Company's going concern assumption has been given on page 6.