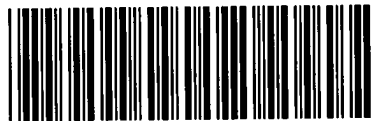


Meeting the challenge together

THURSDAY



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#296

COMPANIES HOUSE

Kier's purpose is to sustainably deliver infrastructure which is vital to the UK.

In challenging times, Kier has continued to work closely with its partners to deliver many of the decisive cost reduction actions in its strategic plan. The refreshed senior leadership team is embedding a culture of Performance Excellence and growing demand from the public sector has resulted in a strong pipeline.

Kier has continued to provide essential support to communities across the UK during these unprecedented times.

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Go online to find out more at www.kier.co.uk
Our corporate website has key information covering our capabilities, markets, latest news, corporate responsibility and investor relations.



Images in this Annual Report were taken before the COVID-19 pandemic and the need for social distancing.

Financial highlights

Total Group revenue^{1,3}

£3.5bn

2019: £4.1bn

Total Group revenue – excluding joint ventures^{1,3}

£3.4bn

2019: £4.0bn

(Loss)/profit from operations^{1,3}

£(195.6)m

2019: £(203.5)m

Adjusted operating profit from operations^{1,2,3}

£41.4m

2019: £85.7m

Earnings/(losses) per share^{1,3}

(106.2)p

2019: (146.9)p

Earnings/per share – before adjusting items^{1,3}

15.3p

2019: 30.9p

Order book

£7.9bn

2019: £7.9bn

Net debt – 30 June 2020⁴

£(310.3)m

2019: £(167.2)m

Net debt – average⁴

£(436)m

2019: £(422)m

¹ See consolidated income statement on page 137.

² See note 5 to the consolidated financial statements.

³ Prior year re-presented to classify the Kier Living division as a discontinued operation. See note 23 to the consolidated financial statements.

⁴ See note 22 to the consolidated financial statements.

Strategic highlights

Refreshed senior management team

- Appointed a new Chief Financial Officer, Simon Kesterton, in September 2019
- Strengthened the executive team with new Group Managing Directors for the Construction and Highways businesses
- Central support functions have been enhanced through the appointment of new HR, IT, Commercial and Procurement Directors and a new Group Financial Controller.

Simplification of the Group

- Reduction in the capital allocated to Property to £145m
- Substantially exited the Environmental services business and rationalised the Facilities Management business
- Reorganised the Kier Living business into a smaller, more disciplined organisation, with a focus on cash generation.

Cost-saving programme

- Annualised run rate cost savings of at least £100m by 30 June 2021
- Identified additional cost reduction initiatives and rationalisation opportunities.

Performance Excellence

- Launched the new Performance Excellence culture to introduce a consistent approach in how we develop and manage our people, as well as manage our processes, projects, costs and address future ways of working
- Published our new governance structure document – the Operating Framework.

Focus on core businesses and cash generation

- Our Construction business has been awarded places on 16 frameworks worth up to £38bn
- Regulated sector wins including Openreach and Virgin Media within our Utilities business
- National and local contracts were awarded to deliver Highways services across the UK.

Turn to pages 6 to 11 for the Chief Executive's review

Turn to pages 26 to 29 for the Strategic framework

Our business

At Kier, we sustainably deliver infrastructure which is vital to the UK.

Construction

As the country's leading regional builder, we work collaboratively with clients on projects of all sizes, complexities and sectors, spanning across the whole of the UK.

Regional Building

As a strategic supplier to UK Government, Kier is a leading provider of education facilities in the UK and has delivered £2.5bn of projects for the Department for Education since 2007.

Within the health sector we have delivered over 200 healthcare projects in the past 10 years working collaboratively with 83 NHS Trusts.

Each year, we deliver c.150 projects for governmental departments, with projects ranging in value from £150k to £200m.

Strategic Projects

Delivering major projects across the infrastructure and building environments our work focuses on the defence, science, custodial and aviation sectors.

We have a longstanding relationship with the Ministry of Justice and are a key partner on national and regional Defence Infrastructure Organisation frameworks.

Using Modern Methods of Construction, the new build prison at Wellingborough is being delivered 22% faster than traditional construction.

Housing Maintenance

We specialise in working in occupied properties, delivering maintenance, repairs, fire safety and compliance services.

Every day we are on call to provide repairs to 25,000 homes.

International

With over 50 years of international experience we undertake major water, power and transport infrastructure projects and construct major public buildings such as schools and hospitals in the United Arab Emirates.

Revenue

£1.6bn

Adjusted operating profit

£36.1m

Delivered over 200 healthcare projects in the past 10 years

Every day Kier is on call to provide repairs to 25,000 homes

A leading provider of education facilities in the UK

Turn to page 10 for more information on our Construction business

Infrastructure Services

We deliver capital projects as well as the maintenance of infrastructure services through partnerships with strategic clients and long-term alliances.

Revenue

£1.5bn

Adjusted operating profit

£31.3m

Highways

We manage, maintain and improve more than 30,000km of local authority and strategic roads working in partnership with longstanding clients such as Transport for London and Highways England.

With over 90 years' experience, we deliver highways services to 4.2m people across 20 local authorities.

Infrastructure

We undertake a range of major and complex infrastructure and civil engineering projects across the UK.

We are delivering 80km of rail for HS2, including 81 overbridges and 15 viaducts.

Utilities

We provide a range of services, including repair, maintenance and emergency response services in the water, energy, gas and telecommunications sectors in the United Kingdom, as well as design and construction services for the United Kingdom's waterways network and the rail sector.

We are a key partner in supplying water to c.17m properties across the UK as well as keeping the lights on for 37.5% of the UK population.

Manage, maintain and improve over 30,000km of the UK's roads

Delivering 80km of railway for HS2

We are a key partner in supplying water to c.17m properties across the UK

Turn to page 10 for more information on our Infrastructure Services business

Other and Corporate

As part of our strategic review we continue the sale process of Kier Living (our housebuilding business), the management of capital deployed to Kier Property, the substantial exit of Environmental Services and rationalisation of our Facilities Management business.

Turn to page 11 for more information on our Other and Corporate segments

Meeting the challenge together

“
Kier is in need of a turnaround. Important steps have been taken and progress has been seen.
”

Introduction

I would like to welcome you to Kier's 2020 Annual Report. I am honoured to have been appointed as the Chairman of Kier. I joined the business because I believe in our refreshed purpose: 'To sustainably deliver infrastructure which is vital to the UK'. Further, I believe we now have the leadership team, under our Chief Executive, Andrew Davies, to deliver on our vision: 'To be the UK's leading construction and infrastructure services company'.

The Board is aware that shareholders are understandably frustrated with the situation and the continued weak share price. The Board appointed Andrew and me to address the strategic and governance issues that had developed at Kier, to put in place the foundations for the future of Kier and to deliver its potential. To that end the following have been implemented:

- › A new strategy, a new senior management team to deliver it, a new culture manifested in the 'Strategic Framework';
- › A new culture, underpinning the new values, Operating Framework and Performance Excellence; and
- › A refreshed Board.

Kier is in need of a turnaround. Important steps have been taken and progress has been seen. COVID-19 has, however, had a material impact on our business.

As set out in the Chief Executive's review on pages 6 to 11, the year can be divided into two separate periods – the first nine months reflected the solid progress that has been made through the successful execution of a number of these strategic actions, and demonstrated the benefits of the decisive cost reduction actions taken by the Group, and the final three months have been impacted by the effects of COVID-19.

What have been the principal areas of focus for the Board?

The Chief Executive's review describes actions already undertaken to progress the Group's strategic objectives, as well as the areas of focus for FY21. Management has taken decisive action to turn the business around, including accelerating the cost savings programme and introducing Performance Excellence, whilst maintaining a dedicated and clear focus on operational safety.

Importantly, we now have an experienced and capable senior management team. This team will support the Board to deliver the turnaround that is necessary to address the requirements of shareholders, customers, employees and suppliers, as well as the communities in which we operate and leave our legacy.

The Group's financial performance has been, and continues to be, closely monitored. Certain key financial metrics are discussed in further detail in the Financial review on pages 64 to 71.

During the year, the Board has increased the amount of time it spends on reviewing human capital and people management. The skills and commitment of our employees and supply chain are fundamental to our business. We are grateful for the hard work and dedication of our employees and the supply chain in a very difficult year for both them and the Group.

COVID-19

The Chief Executive's review summarises the key measures undertaken to mitigate the effects of the pandemic and the Financial review describes the financial impact of COVID-19 on the Group.

The Board would like to express its appreciation to colleagues and suppliers who have ensured that c.80% of our sites have remained open throughout lockdown, demonstrating exceptional commitment in the circumstances. Throughout this period, members of senior management have also worked unceasingly to ensure that Kier has been able to continue to operate as efficiently as possible in the circumstances. The Board wishes to thank them as well.

Not surprisingly, COVID-19 has resulted in an even greater focus on liquidity and cost efficiency. Two of the principal effects of COVID-19 have been an increase in project costs and a decrease in volumes; as a consequence, COVID-19 has had a significant adverse impact on the results for the year, shortly after the Group had begun to experience the benefit of the actions that management had previously implemented.

Annual General Meeting

The Company will hold its Annual General Meeting (AGM) on 17 December 2020. The Notice of AGM, which will confirm the time, location and arrangements for the meeting, will be sent to shareholders in due course.

Board changes

There have been a number of changes in the composition of the Board over the year.

Simon Kesterton was appointed as the Chief Financial Officer on 26 September 2019. Following my appointment as Chairman on 1 January 2020, Dame Heather Rabbatts and Clive Watson were appointed as Non-Executive Directors and, respectively, as the Chairs of the Remuneration Committee and the Risk Management and Audit Committee (the RMaC) on 30 March 2020.

During the year, a number of Directors stood down from the Board: Bev Dew (Finance Director), Claudio Veritiero (Chief Operating Officer), Adam Walker (Chair of the RMaC), Phil Cox (Chairman) and Constance Baroudel (Chair of the Remuneration Committee).

In May 2020, we announced that Kirsty Bashforth would not be seeking re-election by shareholders at the AGM in December 2020. I would like to thank Kirsty for her contribution in six years on the Board and, in particular, as the Chair of the Safety, Health and Environment Committee since 2018. In September, we announced that Alison Atkinson would be joining the Board and appointed as Chair of the Safety, Health and Environment Committee on 15 December 2020. I look forward to working with Alison.


Further information on the Board changes is set out in the Nomination Committee report on page 87.

Where does Kier stand now?

In order to achieve Kier's potential, management will need to deliver a multi-year turnaround. However my first eight months as Chairman have confirmed the following:

- Kier has the technical capability and customer relationships to deliver our vision. We deliver high-quality projects for our clients and customers and operate to high safety standards;
- Kier is well-placed to benefit from the proposed substantial increase in Government-financed infrastructure projects; and
- The new senior management team is moving rapidly to address the strategic and process issues that led to the historical problems which mainly related to over trading and ineffective expansion. A focus on cash and profit rather than top-line revenues underpins this.

As reflected in our July 2020 trading update, before COVID-19, the Group had made good progress in implementing a number of measures to reduce its net debt and strengthen its balance sheet. As a result of COVID-19, however, over the next 12 to 18 months, further actions will need to be taken, including: continuing to implement a range of self-help measures, driving a further increase in the Group's operating cash flows, continuing the process to sell Kier Living and a potential equity issue.


MATTHEW LESTER
Chairman

25 September 2020

Executing our strategic plan

“
The progress made
in the first nine months
reflected the successful
execution of many
elements in our
strategic plan.
”

Introduction

This financial year has been a difficult one for the Group. The progress made in the first nine months reflected the successful execution of many elements in our strategic plan, as we began to experience the benefits of the decisive cost reduction actions taken. The effects of COVID-19 adversely impacted the Group's performance in the final three months of the financial year, as the business adapted to the impacts of the pandemic resulting in extremely challenging market conditions. I would like to thank all of my dedicated Kier colleagues for their commitment and resilience over the course of the year, ensuring many essential public services remained operational.

The new senior management team continues to focus on driving a range of strategic and operational actions throughout the Group. We are also beginning to experience the benefits of the changes in the Group's culture which are being driven by Performance Excellence.

Through the execution of our strategic plan, and by maintaining our market-leading positions and building long-term client relationships, we believe we are positioning the Group well for the future.

Strategy

In June 2019, we announced the results of our strategic review, which concluded that the Group needed to further simplify its structure, better allocate its capital resources, identify additional steps to improve cash generation and reduce net debt. During the year, we made further appointments to our strengthened management team in line with these strategic priorities.

Our core businesses, Construction, Highways, Infrastructure and Utilities, are inherently cash generative and operate under long-term frameworks through which we have the opportunity to tender for a range of projects, providing good visibility of future work with an appropriate risk profile.

Complementing our Construction business, Housing Maintenance has, over the period, continued to seek opportunities with housing associations, local authorities and private landlords for planned maintenance contracts, including fire safety works. The International business, which principally operates in Dubai, has continued to tender selectively for new work.



Through the 2019 strategic review, we also concluded that several of our businesses were not operating in a way that was compatible with the Group's cash flow capital objectives:

- Residential: Kier Living is a strong business but has limited operational synergies with other parts of the Group. There is a new management team in place which has reorganised the business into a smaller, more cash-focused operation. The sales process is now progressing, having been paused in light of COVID-19;
- Property: we have continued to take steps to ensure that the capital allocated to this business remains at an appropriate level and is effectively deployed;
- Environmental Services: we have now substantially exited this business; and
- Facilities Management: following the conclusion of several contracts during the period, we have rationalised the business, which now seeks to identify synergistic opportunities with the Construction business for the benefit of the Group.

Cost-saving programme

To support the delivery of the strategic priorities of the Group we have made a number of structural changes, including increasing the level of

divisional accountability, removing a number of layers of management and significantly reducing the central overhead as a result of actions including outsourcing our IT and fleet management functions.

These changes resulted in the Group's headcount reducing by c.1,700 overall and we expect that this reduction in headcount, along with the delivery of our other strategic actions, will enable the Group to realise annual run rate cost savings of at least £100m by FY21 as compared to FY18. We are reorganising our estate, including moving our London office to a smaller location and have closed our former headquarters at Tempsford Hall in Bedfordshire.

Performance Excellence

In order to introduce a consistent approach in how we develop and manage our people, as well as manage our processes, projects, costs and our future ways of working, we launched Performance Excellence, which is progressing well.

As part of Performance Excellence, we also launched our new Operating Framework in January 2020, which sets out the governance structure within which the Group operates. It also provides clarity on key roles and responsibilities and, alongside the new Code of Conduct, guides the behaviours expected from those who work for Kier.

In January 2020, we also launched the Group's new values: collaborative, trusted, and focused.

Collaborative – We enjoy what we do. We work closely with our clients and stakeholders to provide innovative solutions.

Trusted – We deliver what we promise. We act safely and ethically and we care for the environment and the communities in which we work.

Focused – We are clear in our approach. We are disciplined and thorough in how we work and deliver for our clients and customers.

Customers and winning new work

We remained focused on winning work through our long-standing client relationships and regionally based operations. Our rigorous customer satisfaction programme shows that our scores have remained stable; our consistently high level of customer satisfaction remains at 92% and our net promoter score improved to 55 (FY19: 48).

During the year:

- Our Construction business was awarded places on 16 long-term frameworks worth up to £38bn, across a number of sectors, including health, education and justice;
- Our Highways business was successful in winning contracts with clients including Surrey County Council, Northamptonshire County Council and Birmingham Highways Limited; and
- We have also won work in the regulated sector, including being appointed as a partner in the Openreach Network Services Agreement to carry out network delivery works and have renewed a contract with Virgin Media to deliver telecoms infrastructure.

The Group's order book at 30 June 2020 was £7.9bn (2019: £7.9bn), as we continue to win new work in our chosen markets.

The Group has won a number of contracts since 1 July 2020, including being awarded the Highways England Area 4 highways maintenance and response contract and contracts totalling £170m for the construction or renovation of 13 schools.

Supply chain

We have also focused on maintaining and growing relationships with our key stakeholders, including our supply chain, many of whom are long-term partners of Kier. We were pleased to confirm that, in our latest Payment Practices and Reporting Regulations submission covering the period from 1 January 2020 to 30 June 2020, the Group's aggregate average payment days remained consistent at 38 days and the percentage of payments made to suppliers within 60 days increased from 81% to 84%, in each case compared to the six months period to 31 December 2019.

We are committed to further improvements in our payment practices and continue to work with both customers and suppliers to achieve this. The actions taken by the Group have also resulted in 92% of registered entities being reinstated on to the Prompt Payment Code.

COVID-19

The Group's management and colleagues focused throughout the unprecedented COVID-19 pandemic on ensuring that, wherever it was safe to do so, the Group's activities remained safe and operational. Following a review of all our sites, we implemented new Site Operating

Procedures (SOP), which followed Government guidance, to allow our teams, customers and suppliers to operate safely in the light of social distancing requirements.

Strong relationships with our key customers and debt providers ensured we maintained good liquidity levels during this challenging period.

In a typical year, May and June are strong trading months for the Group. The effects of the pandemic included:

- Reduced site productivity as a result of implementing the revised SOP;
- Delayed starts on new sites; and
- Additional costs being incurred in responding to the pandemic.

These factors each affected the Group's turnover, profit and working capital in the final quarter of the financial year. The UK-wide lockdown resulted in a significantly lower number of completions in Kier Living.

Throughout COVID-19, our teams continued to build and maintain the UK's highways networks, deliver vital maintenance to people's homes, build schools and hospitals, deliver critical national infrastructure and provide key services to the water, gas, power, telecoms and rail sectors. We also delivered three surge hospitals across the UK. Furthermore, we invested in new technology to alter the way we work, which included developing a process to robotically place cones on road surfaces prior to commencing works in our Highways business, removing the requirement to have two operatives working together.

Alongside all areas of the Group responding positively to the challenge, we also implemented self-help measures including:

- Asking 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% and 25%;
- Furloughing c.2,000 employees through the period. As at 31 July 2020, no colleagues remained on furlough leave;
- Following agreement with HMRC, deferring certain taxation payments; and
- Bringing forward the closure of our former headquarters at Tempsford Hall in Bedfordshire to 30 April 2020 from the previously announced date of 30 June 2020.

Management changes

We have appointed a number of new members of the senior management team. Alongside the appointment of a new Chief Financial Officer, the team has been strengthened through the appointment of new Group Managing Directors for the Construction and Highways businesses and central support functions have been enhanced through the appointment of new HR, IT, Commercial and Procurement Directors and a new Group Financial Controller.

Safety, Health and Environment (SHE)

The safety, health and wellbeing of our employees and suppliers remain of paramount importance. The Group's average 12-month Accident Incident Rate (AIR) (112) and average 12-month Average Accident Incident Rate (AAIR) (363) increased, by c.32% and c.9%, respectively, as compared to the equivalent figures for FY19.

However, the Group's AIR and AAIR for FY20 of 87 and 304, decreased by c.16% and c.15% respectively, as compared to the equivalent figures at FY19. During the year, we relaunched our campaign to raise awareness of doing the safety basics rigorously and effectively.

Sustainability

Our impact on the environment is also a key part of our new strategy. We have launched our new environmental framework 'Building for a Sustainable World', which concentrates on two key components; environmental sustainability and social sustainability.

Our sustainability approach aims to create a resilient, purpose-driven business by safeguarding three vital features: a resilient environment; a resilient community (workforce, supplier and customer base) and resilient profits.

Our new framework outlines that we are committed to preventing environmental and social harm, as well as replenishing our natural systems and renewable resources and having a positive impact on the communities and environments in which we operate.

Refreshed management team

Existing team

HUGH RAVEN

General Counsel and Company Secretary

JOHN EDWARDS

Safety, Health, Environment and Assurance Director

MARK PENGELLY

Group Managing Director Infrastructure

BARRY MCNICHOLAS

Group Managing Director Utilities

Promoted from within the business

HELEN REDFERN

Group HR Director

JOE INCUTTI

Group Managing Director Highways

New hires

SIMON KESTERTON

Chief Financial Officer

LIAM CUMMINS

Group Managing Director Construction

STUART TOGWELL

Group Commercial Director

JAMIE MCKECHNIE

Group Procurement Director

PHIL MORRIS

Chief Transformation Officer IT

“The new senior management team continues to focus on driving a range of strategic and operational actions throughout the Group.”

Results summary

Revenues in the year fell 15% to £3,476m, primarily due to the effects of COVID-19 on the last three months as well as the challenging market conditions through the year affecting both Construction and Infrastructure Services, where revenues were down 15% and 10%, respectively. This was in part due to several long-term investment programmes concluding in the year, including the Road Investment Strategy 1, but these have been offset by new project wins that result in our order book remaining flat at £7.9bn.

Group operating results, both before and after adjusting items, reflect these revenue reductions and the impact of direct related COVID-19 costs offsetting the benefits made through the realisation of significant overhead cost savings and the inclusion of £9m arising from the IFRS 16 accounting change. The realisation of cost savings, along with the progress made in the delivery of the strategic priorities, has resulted in restructuring-related charges of £156m in the year, which the Group has classified as an adjusting item.

Group net debt at 30 June 2020 was £310m. This performance represented a cash outflow from 30 June 2019, which was largely caused by the volume declines resulting from the effects of COVID-19; a reduction in the Kier Early Payment Scheme (KEPS) utilisation of £45m; substantial payments required to access future benefits of the cost-saving programme, being partially offset by deferring VAT and PAYE payments; and significant reductions in discretionary spend, including capex. Average month-end net debt for the period was £436m, an increase of £14m from FY19.

Operational review

Construction

	Year ended 30 June 2020	Year ended 30 June 2019 ¹
Revenue (£m)	1,588	1,849
Adjusted operating profit (£m) ²	36.1	67.2
Adjusted operating margin	2.3%	3.6%
Reported operating (loss)/profit (£m)	(58.9)	23.1
Order book (£bn)	2.3	2.6

- Awarded places on 16 frameworks worth up to £38bn lasting typically four years
- Projects won in key markets e.g. 13 school projects worth £170m
- 86% of orders secured for FY21

The Construction segment comprises the Regional Building business, the Strategic Projects business, the complementary Housing Maintenance business, as well as the International business. It covers the UK, delivering schools, hospitals, defence facilities and amenities centres of local authorities, councils and the private sector.

Revenue decreased 15% and adjusted operating profit decreased by 46%, primarily due to the impact of the challenging market conditions and the effects of COVID-19 on both productivity of open sites and delays in starting new sites. Contract wins continued to be awarded including securing places on the new £1.5bn YORBuild Major Works Framework and seven lots of the £2bn Hyde Main Contractor Framework. We are well-placed to benefit from the £5bn 'New Deal' opportunities announced by the Government which focus on areas such as health, education and custodial services, where the Group has specialist expertise.

Resulting from a strategic review of the segment in the year, the operations of several regions were restructured which resulted in headcount reductions, the exit from certain market sectors and the closure of a regional office. These actions resulted in costs of £95.0m being incurred within adjusting items.

Our Strategic Projects business continued to work on the RAF Lakenheath project and on the £250m new prison at Wellingborough, which utilises innovative modular building techniques allowing a more standardised approach.

The business continued to focus on the defence, science, commercial, custodial and aviation sectors, which are expected also to benefit from recent Government announcements.

Housing Maintenance specialises in working in occupied properties, delivering maintenance, repairs, fire safety and compliance services. Revenue and profit performance were both below last year. The business now operates under a new simplified operating structure and this, combined with significant changes to contract delivery, gives clear visibility of future work. The business should benefit from recent Government announcements such as the £2bn Green Homes Grant and £1bn Building Safety Fund.

The Dubai-based International business traded well in the period and its more rigorous bidding process resulted in a profit increase in the year.

Infrastructure Services

	Year ended 30 June 2020	Year ended 30 June 2019 ¹
Revenue (£m)	1,506	1,669
Adjusted operating profit (£m) ²	31.3	53.3
Adjusted operating margin	2.1%	3.2%
Reported operating profit/(loss) (£m)	9.4	(3.3)
Order book (£bn)	4.6	4.3

- Key contract awards include £160m eight-year Area 4 maintenance and response contract from Highways England
- Reappointed by Virgin to deliver telecoms infrastructure
- Early works and contract mobilisation have commenced on HS2, with construction currently expected to start later in 2020

The Infrastructure Services segment comprises the Highways, Infrastructure and Utilities and Rail businesses. Results were adversely affected by the continuing change in the mix of work in the Highways business from maintenance to lower-margin capital projects. The transition to the 2020-2025 AMP7 regulatory period adversely affected the performance of the Utilities business in the year. Trading in the Utilities business in the last three months of the year was adversely affected by the effects of COVID-19.

The Highways business builds and maintains roads for Highways England and a number of district and county councils. The business continued to win work at both national and local levels, including the Area 4 maintenance and response contract, as well as local highway wins with Surrey, Northampton County Councils and Birmingham Highways Ltd. During the year, two of our Smart Motorway projects, the M20 and M23 were delivered and we remain on track to successfully deliver a third project on the M6.

The Infrastructure business delivers major and complex infrastructure and civil engineering projects, including the HS2 project in joint venture with Eiffage, Ferrovial and BAM Nuttall and the Luton DART rail system in joint venture with VolkerFitzpatrick. Revenue and profit were less than in FY19, primarily due to phasing on some new projects and COVID-19 related delays. Following the Government's HS2 announcement giving notice to proceed, early works and contract mobilisation have continued; with construction expected to start later in 2020.

The Utilities business delivers long-term contracts providing construction and maintenance services to the water, energy, rail and telecommunications sectors. During the year, this business primarily focused on margin enhancement and, therefore, exited some lower-return contracts, resulting in revenue and profit being less than in FY19. The business has been awarded key contracts with new clients including being appointed as a partner in the Openreach Network Services Agreement to carry out network delivery works, with Yorkshire Water for capital works, and has renewed its contract with Virgin Media to deliver telecoms infrastructure. The business pipeline for high-quality, long-term infrastructure works is strong.

Adjusting items of £21.9m predominantly relate to restructuring charges incurred in the year; the prior year reported losses include costs related to acquisitions in previous years.

Other

	Year ended 30 June 2020	Year ended 30 June 2019 ¹
Revenue (£m)	370	585
Adjusted operating profit (£m) ²	5.1	12.3
Adjusted operating margin	1.4%	2.1%
Reported operating (loss) (£m)	(14.3)	(66.3)
Order book (£bn)	1.0	1.0

The Other segment comprises the businesses which are expected to be divested, exited or restructured, or are being evaluated, namely, the Property, Environmental Services and Facilities Management businesses.

The Property business invests and develops schemes and sites across the UK. Adjusted operating profit decreased principally due to delays in the completion of certain projects and its reduced access to capital. Management is reviewing options to further release capital from this business.

The Facilities Management business provides management and maintenance solutions for its clients. Consistent with our strategy, we have rationalised the business, which now seeks to identify synergistic opportunities with the Construction business for the benefit of the Group.

The Environmental Services business provides waste collection and recycling services. Revenues were less than in FY19 although losses significantly reduced as we exited contracts. We have substantially exited the business, with only two contracts remaining, together with the Pure Recycling business.

Adjusting items of £19.4m have been incurred implementing Group strategic objectives.

Summary and outlook

The first nine months of the year reflected the progress in the steps which had been taken to simplify the Group. We substantially exited our Environmental Services business, reduced capital in our Property business and significantly reduced our cost base. We continue to expect our cost saving programme to deliver at least £100m of annual run rate savings by 30 June 2021.

We strengthened the management team, launched our Performance Excellence programme across the Group and published our new Operating Framework, both of which are underpinned with a refreshed set of values, and all of which aim to drive future profits and cash flows. Despite decisive management actions taken to mitigate the effects of COVID-19, trading in the final quarter was adversely affected by the pandemic, notably in the key months of May and June, and this resulted in net debt being higher than forecast.

Whilst the Group anticipates that the effects of COVID-19 will continue, the strategic actions being implemented throughout the Group are designed to ensure Kier is well-placed to deliver value from its strong order book and benefit from the proposed substantial increase in UK infrastructure investment. We do not anticipate material restructuring costs in FY21 and having agreed relaxations with the Group's lenders under its principal debt facilities, the new management remains focused on delivering the Group's strategic objectives. Consistent with this, the current year has started in line with our expectations.


ANDREW DAVIES
Chief Executive

25 September 2020

Corporate

	Year ended 30 June 2020	Year ended 30 June 2019 ¹
Adjusted operating profit (£m) ²	(31.1)	(47.1)
Reported operating loss (£m)	(131.8)	(157.0)

The Corporate segment comprises the costs of the Group's central functions. During the year, there was a reduction in these costs, following the implementation of the Group's cost reduction programme. The cost of implementing these cost savings, and adviser costs resulted in charges totalling £100.7m which have been classified as an adjusted item.

Kier Living

The results for Kier Living for the period are classified as discontinued, including the restatement of the prior period comparatives. Kier Living's adjusted loss after tax for the year was £12.8m (FY19: £36.2m profit), as the business was adversely affected by site closures in the fourth quarter of the financial year, following the outbreak of COVID-19.

¹ Prior year comparative information re-presented to show the new reporting segments – see note 1 to the consolidated financial statements.

² Stated before adjusting items and amortisation of acquired intangible assets.

Delivering vital infrastructure

Working with our
clients and customers

**Re-forming
new build prisons
at Wellingborough**

**Supporting local
economies at
Luton DART**

**Keeping passengers
on the move through
Smart Motorways**

**Innovation through
partnership with
Anglian Water**

We take pride in bringing our specialist knowledge, sector-leading experience and fresh thinking to create workable solutions for our clients across the country.

Together, we have the scale and breadth of skills of a major company, while retaining a local focus and pride that comes from never being far from our clients, through our network that spans across England, Wales, Scotland and Northern Ireland.

Re-forming new build prisons

“Project Integrator Kier has embraced the design challenges at the new prison at Wellingborough and has worked with us to apply the innovative design to the site, whilst using Modern Methods of Construction (MMC) and a digital-first approach. It brought focus to preconstruction and that attitude has continued into construction.

The collaborative ethos flows through the supply chain, making this project a pleasure to work on. Nothing highlighted this more than the resilience demonstrated through the unprecedented period brought about by the outbreak of COVID-19 which enabled construction to continue safely. The team showed tremendous resilience and a problem-solving attitude. I am proud of how the whole project was able to work together to ensure safety and great progress throughout the crisis, in part enabled by the MMC approach.

We are delighted to have Kier delivering this trailblazing project, which will be finished faster and smarter than by traditional construction methods.”

LYNDA RAWSTHORNE
Director of prison infrastructure at the Ministry of Justice

New build resettlement prison at Wellingborough

The new build resettlement prison in Wellingborough has set a new standard for excellence in integration, collaborative working, product innovation, skills and training, and pioneering approach to offsite manufacture and digital technologies.

This vast project is delivering 1,680 prison places for male category C prisoners. It is the first in a series of schemes to be undertaken as part of the Ministry of Justice's (MoJ) wider challenge to reform and modernise the prison estate to make it more efficient, decent, safer and focused on rehabilitation.

The challenge

The MoJ tasked Kier with creating repeatable, standardised components and processes to maximise efficiencies across a number of assets. Increased stakeholder engagement was required at an early stage to agree this new design that could be progressed across the next wave of projects (to create 10,000 prison places), procured through supply chain partners who shared the MoJ's drive for digital, Modern Methods of Construction (MMC) and partnering ethos.

The solution

The new prison at Wellingborough is incorporating repeatable, standardised components across 13 buildings on site. Circa 80% of the design has been standardised, leaving just 20% as site-specific design.

The impact

Through a common design we manufactured the same components in multiple factories, removing a single point of failure and ensuring continuity of supply, minimising delays during the COVID-19 lockdown.

Outcomes include:

- › On-site labour reduced by a third, preventing on-site accidents;
- › Prefabricated MEP is saving 54,000 working hours on site; and
- › The project will be built 22% faster than traditional construction methods.

Supporting local economies

Luton DART (Direct Air–Rail Transit)

The joint-venture between Kier and VolkerFitzpatrick is delivering a transit system for London Luton Airport Ltd that will link the airport terminal building to Luton Airport Parkway station, reducing journey times for airport users.

The challenge

The airport caters for around 15m passengers a year and currently employs 10,000 people. The airport is growing and with this growth it is investing in developing and improving the passenger experience, in which the DART project plays a vital role.

The solution

The 2.1km Luton DART system is a guided mass passenger transit system and will link the airport terminal to Luton Airport Parkway mainline station, significantly reducing journey times from the terminal to the station. In peak times the DART will depart the stations every four minutes.

The project forms part of Luton Borough Council's £1.5bn Luton Investment Framework to transform Luton and secure long-term economic growth, benefiting local business and ensuring the local community has access to high-quality employment opportunities.

With our partners, we have ensured that 65% of the workforce has been employed within a 50-mile radius of the project.

The impact

During construction, the project has had a large social-value ambition to support the economic development of the local area. It has delivered construction-specific training opportunities to over 750 Luton residents through its Construction Skills Training Hub and, as part of the National Skills Academy for Construction, it has made a number of commitments, including recruiting 30 apprentices onto the project and creating 78 new jobs for local people.

“Improving people’s lives in Luton is our main aim in our stewardship of London Luton Airport. In all of our development schemes across the town we look for innovative ways to make sure that our communities directly benefit. Our hope is that the iconic Luton DART continues to inspire people to actively consider a career in construction in Luton.”

CLLR ANDY MALCOLM
Chair of LLAL

Photography by Shaun Armstrong

Keeping passengers on the move

“From a construction point of view the M23 J8-10 is one of the best project turnaround stories in SMP’s history and it reflects the great leadership and teamwork that you have on the project.

Well done and keep going.”

MIKE GRANT
Delivery Director, Highways England

Smart Motorways Project M23 Junction 8–10

On behalf of Highways England, Kier is upgrading an 11-mile stretch of the M23 near Gatwick Airport to an all-running smart motorway.

The challenge

The M23 is a crucial and busy part of the UK strategic road network, with c.180,000 vehicles travelling on it each day. As a result, congestion, safety and journey times were all key issues that needed to be resolved. There have been many challenges throughout the scheme including communicating with 154,000 residents living along the network and working reduced hours to facilitate Gatwick flight times.

The solution

The planning and collaborative working to come up with different ways to reach successful outcomes contributed largely to the continued success of this project. We work collaboratively with key stakeholders, including residents, Gatwick Airport and the client to ensure the successful delivery of the project.

We reduced our working window to 10pm until 4am so that Gatwick passengers would not be worried about missing flights due to closures on the M23 and communicated our ongoing plans to over 200,000 people on a weekly basis. We also opened a 24/7 helpline so that everyone had the chance to call to ask about works and diversion routes.

The impact

The project will increase capacity and make journeys more reliable, by controlling the flow and speed of traffic and providing driver information displayed on signs.

In April of this year we reached a major project milestone opening a fourth lane in each direction; works to install, test and commission the new technology ready for completion are due to finish imminently.

Innovation through partnership

Anglian Water – partnership and collaboration focus with a longstanding client

One of our long-term clients is Anglian Water, with whom we have been consecutively working with for the last 15 years. Anglian Water has the largest geographical area of any water company in England and Wales, supplying water and water recycling services to more than six million customers each year.

The challenge

In 2015, Kier was successfully appointed by Anglian Water to its Alliance frameworks for Integrated Maintenance and Repair (IMR), Integrated Metering and Developer Services (IMDS) and Integrated Operational Solutions (IOS), which will be reviewed after each five-year Asset Management Plan (AMP) period with the potential of the partnership running for 15 years.

The aim of the Anglian Water alliance is to create a collaborative partnership with all of its partners and for all to be aligned through a commercial model, integrated setup and performance structure, to meet its ambitious business requirements.

The solution

As part of our work with Anglian Water, our skilled teams carry out planned and reactive services, with a 24/7 emergency response service as well as carrying out works across the water and water recycling networks, including main laying schemes across the network and sewer repairs and new meter installations.

Providing innovative solutions is critical within the water industry and over the last year, Kier has been developing and trialling pioneering fibre optic technology with Anglian Water. This technology has the potential to improve detection of low-level leaks and prevent costly, timely and inconvenient water escapes.

Kier is also helping Anglian Water and its customers better understand water usage through the F1 Smart Meter project, whereby we are completing over 60,000 meter installations each year. From this year, the aim is to be completing over 1,000 meter exchanges per day.

The impact

As a trusted and focused partner, we have helped Anglian Water consistently beat its regulatory leakage target and provide innovative water solutions to its customers across England.

Following a review of performance over the last AMP period earlier this year, Kier successfully renewed its partnership with Anglian Water for the next five years, meaning it is on course to be a part of one of the longest collaborations in the water industry.

“We really value the combination of insight, innovation and hands-on delivery Kier offer. Our collaboration spans many years, so Kier understand our long-term priorities and have played a crucial role in the journey we’ve been on to reduce our carbon use and establish industry-leading rates of leakage reduction. Our working relationship is founded on partnership and shared goals.”

PETER SIMPSON
CEO Anglian Water

Resilient markets

Kier has potential for longer-term organic growth as the UK construction market is an attractive, growing market.

UK construction market

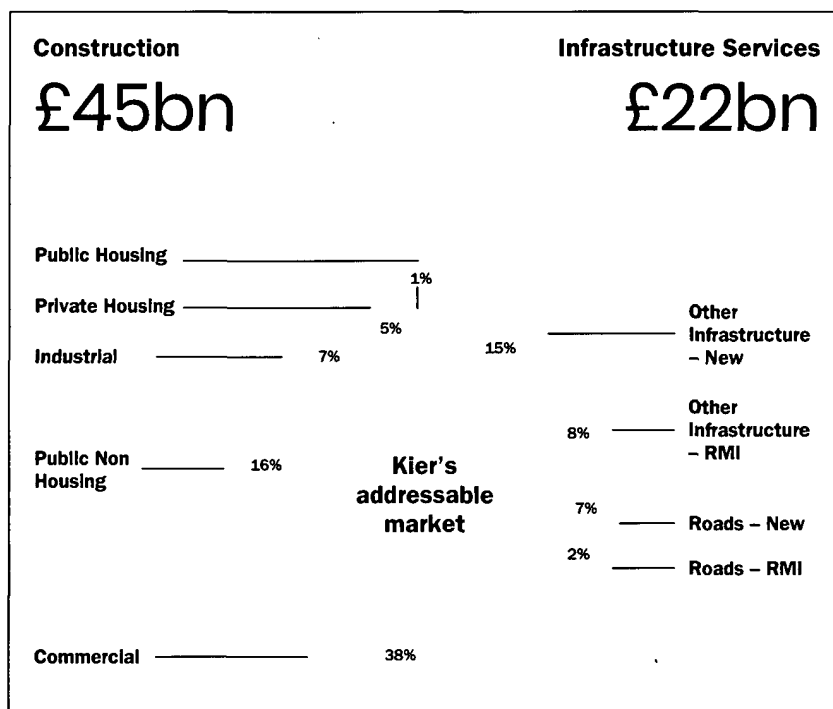
The overall UK construction and infrastructure market is estimated to be worth £123bn in 2020¹, down from £164bn² in 2019 due to the effects of COVID-19. As the market recovers from the temporary effects of COVID-19 and with expected increases in Government spending, current forecasts show that this is expected to grow back to £155bn³ by 2021. The Group serves this market through its two segments; Construction and Infrastructure Services and of this, we have an addressable market of £45bn in construction and £22bn in infrastructure services.

Kier's addressable market

The Group serves this market through its two segments; Construction and Infrastructure Services.

The Construction segment delivers for both the public and private sectors through local bases and offers national coverage for our clients and customers. The key sectors served include education, health, justice and defence.

The Infrastructure Services segment is focused upon three main markets: Highways, Infrastructure and Utilities. The Highways business designs, constructs and maintains strategic and local authority road networks. It provides its customers with services including the delivery of emergency response and reactive maintenance as well as critical infrastructure. Our Infrastructure business provides high-value and complex construction and civil engineering projects for sectors including nuclear, roads and rail. It often uses joint ventures to execute these large long-term projects bringing specialist expertise to complement Kier's skills. Our Utilities business provides the repairs and maintenance of essential services to the water, energy, telecoms and rail sectors. Its customers are largely regulated by Government agencies including OFWAT for water and OFGEM for gas and power.



The importance of frameworks

A significant number of construction projects for both public and regulated sector work is awarded through frameworks. Kier is focused upon winning places on all the major frameworks required to access these projects which are being funded in line with the Government's announcements.

During the year our Construction business has won places on 16 frameworks worth up to £38bn and c.80% of our FY19/20 revenue derives from projects delivered under framework agreements. Kier's positions on frameworks underpin the work we have undertaken across our core markets and is well placed to benefit from recent Government announcements.

^{1, 2, 3} CPA Construction Industry Scenarios 2020/21 Spring 2020 Edition

Growth drivers – Kier is well placed to benefit from growth areas

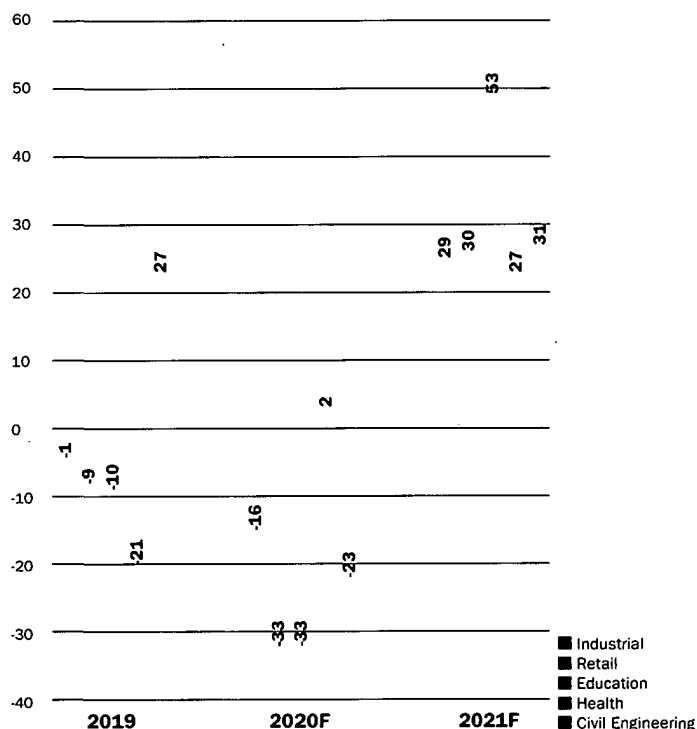
Kier focuses on sectors which are forecast to grow above the market average due to targeted Government spending and investment. Specific drivers are the Government's focus on education, health and civil engineering, plus industrial and retail recovery from COVID-19 related declines. Longer-term trends are driven by the Government's stated intention to improve UK competitiveness through increased capital investment. Major schemes being undertaken include HS2, Hinkley Point C and Thames Tideway – all driving the increased activity in the forecast period.

Change on previous year	2019	2020F	2021F
Private Housing	-4%	-42%	42%
Social Housing	0%	-35%	62%
Industrial*	-1%	-16%	29%
Offices	2%	-30%	16%
Retail*	-9%	-33%	30%
Hotel and Leisure	-3%	-31%	27%
Education*	-10%	-33%	53%
Health*	-21%	2%	27%
Community and Amenity	-7%	2%	34%
Civil Engineering*	27%	-23%	31%
Total	-1%	-31%	38%

* Sectors most important to Kier

Source: Glenigan main forecast 2020 and 2021.

Actual and predicted growth rates of project starts by UK construction segments



Kier's strength in key sectors

This growth is underpinned by the UK Government announcing £80bn of additional capital spending over the next four years, including a focus on Education, Health, Defence, Justice and Infrastructure projects – all markets which Kier focuses on. Our Utilities business has opportunities through the Asset Management Plan (AMP7) cycle (from 2020 to 2025) for the water industry as well as planned improvements and a full fibre roll out across the country. Our Highways business should benefit from the new Roads Investment Strategy (RIS 2) which also runs from 2020 to 2025. HS2 and other large infrastructure projects also underpin the attractive market outlook.



Our business model

Kier Group is a leading UK construction and infrastructure services company. Its purpose is to sustainably deliver infrastructure which is vital to the UK. The Group invests, builds and maintains the UK's essential assets and infrastructure with c.85% of Group revenue from Government, quasi-Government or regulated industries.

Inputs



Strategic

Financial capital

Human capital

Customer relationships

Sustainability principles



Innovation and scale

Geographical coverage

Kier intellectual property

Sector-specific expertise



Project management

Supply chain

Design and logistics

Budget management

What we do

Our strengths

Skills, experience and knowledge of our people

We deliver some of the UK's most challenging maintenance and capital projects. Our teams and supply chain have proven experience and capabilities to win and deliver projects safely and profitably

Scale and coverage

Our strength lies in our regional network spread across the UK

Strong partnerships

Our proven ability to work collaboratively with clients and suppliers is fundamental to our success, whether winning work through frameworks, working with others through alliances and joint ventures or delivering the best results to balance time, cost and quality objectives

Our business focus

Stable and sustainable markets

Value added Kier intellectual property

Sensible cost base and Group synergies

Leading market positions

Profitable and cash generative

The risks we mitigate

As part of our business model we have to mitigate key risks at each stage

Health and safety

Legislation and regulation

Funding

Turn to pages 60 to 63 for more information on Our principal risks

Construction

The Construction segment delivers for both the public and private sectors through local bases and offers national coverage for our clients and customers. The key sectors served include education, health, justice and defence.

Turn to page 10 for more information on our Construction business

Infrastructure Services

The Infrastructure Services segment is focused upon three main markets: Highways, Utilities and Infrastructure. The Highways business designs, constructs and maintains strategic and local authority road networks. It provides its customers with services including the delivery of emergency response and reactive maintenance as well as critical infrastructure. Our Utilities business provides the repairs and maintenance of essential services to the water, energy, telecoms and rail sectors. Its customers are largely regulated by Government agencies including OFWAT for water and OFGEM for gas and power. Our Infrastructure business provides high-value and complex construction and civil engineering projects for sectors such as nuclear, roads and rail. It often uses joint ventures to execute these large long-term projects bringing specialist expertise to complement Kier's skills.

Turn to page 10 for more information on our Infrastructure Services business

Outputs

The value we create



Shareholders
Deliver shareholder value

(8.2%)

total shareholder return (TSR) change for FY20



Clients
Deliver for clients and their customers

92%

customer satisfaction rate



Employees
Engaged and talented employees who we invest in

63%

employee engagement rate



Environment
Reduce our consumption of energy and greenhouse gas emissions per £ revenue

23.4 tCO₂e

tCO₂e reduction in emissions from fossil fuel derived energy to operate per £ revenue



Supply chain
Maintain a good relationship with our supply chain partners

38 days

days to pay suppliers improving from 41 to 38 days

Turn to pages 30 and 31 for more information on our Key performance indicators

Market sector and performance

Contract management

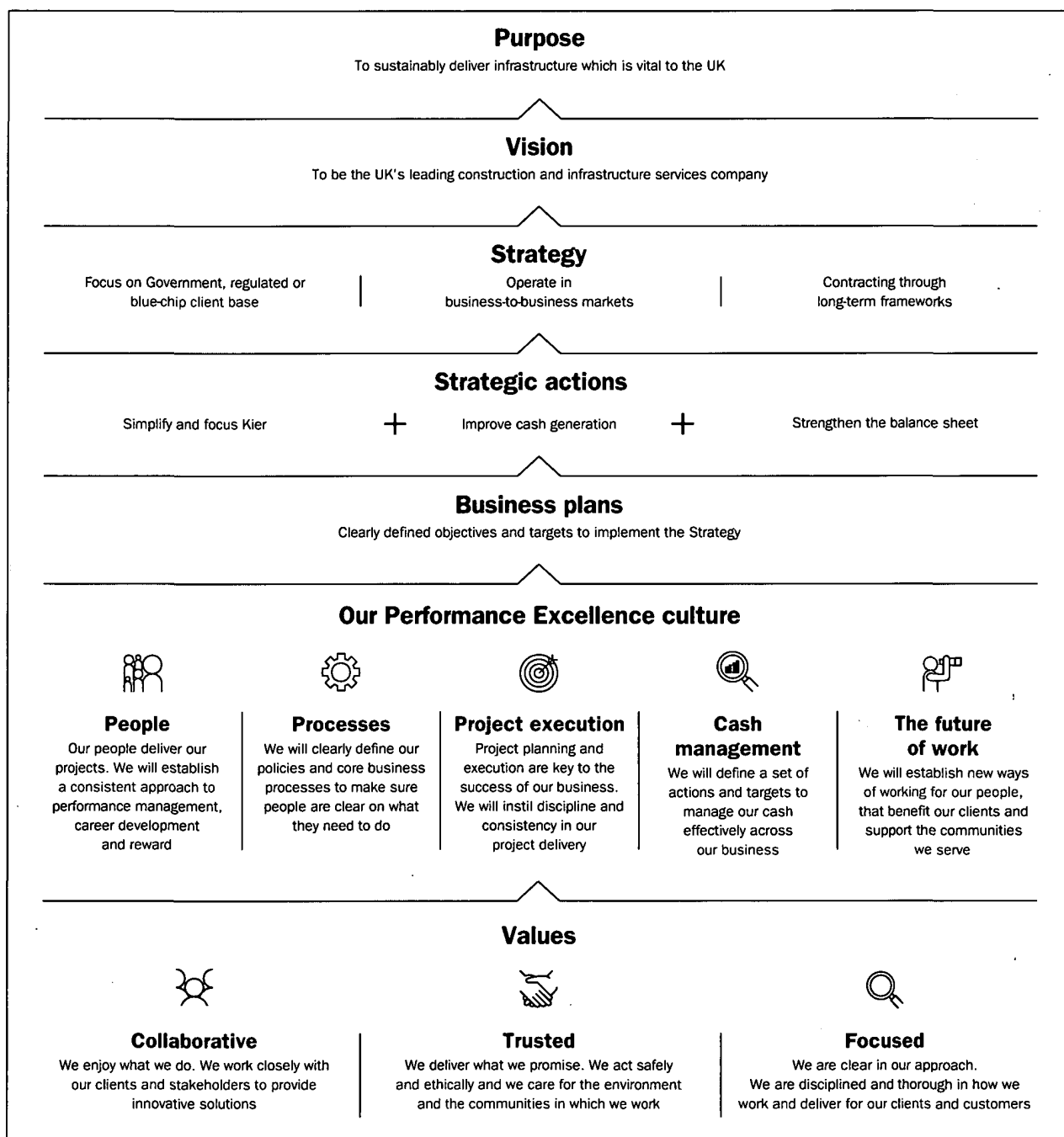
People

Supply chain

Strategy

Group strategic framework

This framework provides a high-level summary of our Purpose, Vision and Strategy, the delivery of which will be supported by the implementation of our Performance Excellence culture and our values.

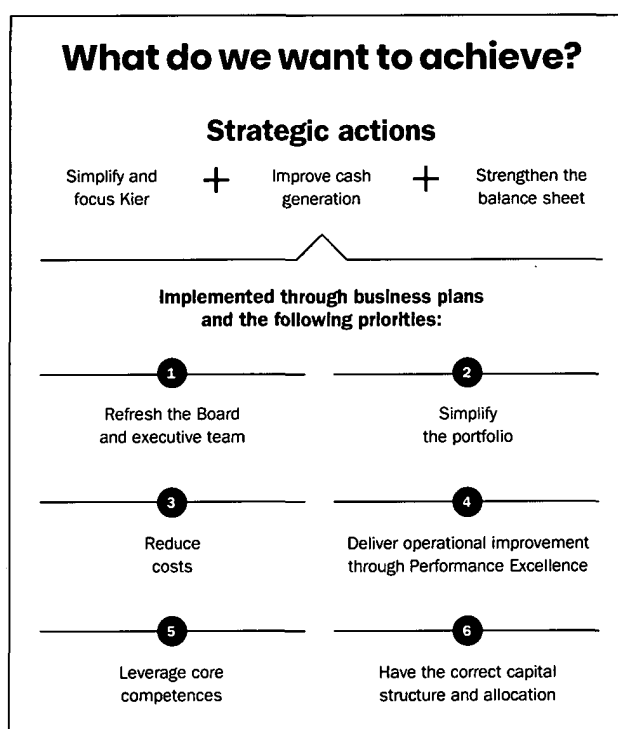


What makes us Kier

In June 2019, we announced the results of our strategic review, which concluded that the Group needed to further simplify its structure, better allocate its capital resources, identify additional steps to improve cash generation and improve net debt.

Through the resulting strategic actions we will capitalise on our strengths of operating through quality, long-term contracts and frameworks, (85% of them in the public sector and regulated businesses) and improve the size and quality of the order book.

We have strong positions in core sectors, talented people, a strong health and safety performance and a deserved reputation for project delivery, which is demonstrated through long-term partnerships and repeat business from our clients.



Strategic priorities

1

Refresh the Board and executive team



Why?

- › Puts in place the right people who will drive forward the new Kier
- › Facilitates the application of our new values and culture across the Group
- › Supports decentralisation and empowers each business



What have we done?

- › Appointed a new Chairman
- › Refreshed the Board through the appointment of new Non-Executive Directors
- › New members of the executive management team: CEO, CFO, Group Commercial Director, Group Procurement Director, Chief Transformation Officer IT and Construction Group Managing Director
- › Promoted our HR Director and Highways Group Managing Director



Next steps

- › Continue to embed Performance Excellence across all businesses

2

Simplify the portfolio



Why?

- › Reduces complexity
- › Ensures all businesses complement one another
- › Concentrates on our strengths of working with public bodies and blue-chip customers through long-term framework agreements
- › Better capital allocation to those businesses serving our chosen markets and customers



What have we done?

- › Commenced the process of selling our housebuilding business Kier Living. During the year the new management of Kier Living has reorganised the business into a smaller, more disciplined organisation, with a focus on cash generation
- › Reduced the level of capital deployed in our Property business. We continue to take steps to ensure that the capital allocated to the business remains at an appropriate level and is effectively deployed
- › Identified several businesses which we consider to be non-core to the Group. We have substantially exited the Environmental Services business and have rationalised the Facilities Management business, allowing us access previously unavailable synergies with our Construction business



Next steps

- › Continue to progress the sale of Kier Living
- › Sell our Pure Recycling business
- › Managed the capital allocated to the Property business to an effective level; which both supports its future prospects whilst continuing to ensure it's appropriate for the Group

3

Reduce costs



Why?

- › Reduces organisation complexity
- › Increases business decentralisation and empowers local management
- › More focus on client delivery



What have we done?

- › Implemented a programme of cost savings which are anticipated to deliver annual run rate cost savings of at least c.£100m in the financial year ending 30 June 2021, with costs associated with these savings having been incurred in the current financial year



Next steps

- › Deliver the cost savings in FY21
- › Continue to review and challenge the Group's cost structure to ensure it is optimal

4

Deliver operational improvement through Performance Excellence



Why?

- › Critical to the future of Kier
- › Focuses on five work streams of people, processes, project execution, cash management and the future of work
- › Focuses on quality, delivery and innovation
- › Ensures that Kier consistently works in the most appropriate way
- › Improves our relationships with the Group's key stakeholders



What have we done?

- › Performance Excellence has been introduced across the Group
- › Published our new governance structure document, the Operating Framework alongside our new Code of Conduct



Next steps

- › Ensure Performance Excellence is successfully embedded across the Group

5

Leverage core competences



Why?

- › Builds on our position as a leading contractor for public bodies and regulated industry sectors
- › Ensures ability to be awarded work through long-term procurement frameworks
- › The core sectors we work in includes health, education, roads and power



What have we done?

- › Undertaken pre-contract mobilisation following receipt of the 'notice to proceed' for the next stage of the HS2 project
- › Secured 97 contracts within health, education and defence and justice sectors worth £574m
- › Won places on 16 frameworks worth up to £38bn including Lots 1 and 2 of the £2.6bn Thames Water AMP7 Capital Programmes Framework (Runway 2)



Next steps

- › Continue to be a partner of choice for customers within our chosen markets
- › Start delivering on the HS2 mains works contract

6

Have the correct capital structure and allocation



Why?

- › To allow the Group to focus on its stakeholders we need to have the correct capital structure in place
- › To have the correct structure to grow the core businesses
- › To reduce reliance on short-term debt structures



What have we done?

- › Initiated self-help measures including our cost saving programme
- › Divested non-core businesses
- › Improved key metrics such as reducing supplier payment terms from 41 days to 38 days
- › Ensured that 92% of registered entities have been reinstated to the Prompt Payment Code



Next steps

- › Issue additional equity to help optimise the capital structure
- › Continue to implement a range of self-help measures, driving a further increase in the Group's operating cash flows
- › Sell Kier Living and Pure Recycling

Financial			
Key performance indicator	Our performance		Comment
Total Group revenue^{1,2} (bn) Revenue for the Group from continuing operations including joint ventures	2020 2019	3.5 4.1	Group revenue was impacted in the first half of the year by market uncertainty due to Brexit and by COVID-19 in the second half of the year
£3.5bn			
Adjusted operating profit^{1,2,3} (m) Operating profit for the year before adjusting items	2020 2019	41.4 85.7	Group profit before adjusting items was materially lower reflecting lower revenues and costs associated with COVID-19
£41.4m			
Earnings per share – before adjusting items^{1,2,4} (p) Earnings per share for the year generated from operations before adjusting items	2020 2019	15.3 30.9	Group earning per share before adjusting items was materially lower reflecting the volume and COVID-19 issues affecting profits
15.3p			
Order book (bn) Secured and probable future contract revenue not currently recognised in the financial statements	2020 2019	7.9 7.9	Order book has remained resilient as the Group continues to win high quality work in its key markets and across a range of sectors
£7.9bn			
Net debt – average⁵ (m) Average monthly net debt for the year	2020 2019	(436) (422)	Average net debt has slightly increased due to the impact of COVID-19 in the second half of the year
£(436)m			
Cash – free cash flow⁵ Alternative cash flow measure to evaluate what is available for distribution	2020 2019	8.3 (88.6)	Improved cash generation assisted by Government COVID-19 related help
£8.3m			

¹ See consolidated income statement on page 137.

² Prior year re-presented to classify the Kier Living division as a discontinued operation, see note 23 to the consolidated income statement.

³ See note 5 to the consolidated income statement.

⁴ See note 12 to the consolidated income statement.

⁵ See note 22 to the consolidated income statement.

⁶ Restated due to a change in our reporting mechanism from calendar year to financial year.

Non-financial

Key performance indicator	Our performance		Comment
Safety – Group accident incidence rate (AIR) Achieve year-on-year improvement in the Group AIR. Remain below the Health and Safety Executive benchmark for the UK	2020	87	We are pleased to report that the Group's AIR decreased by 16% to 87, as compared to the equivalent figures at 30 June 2019. This remains below the HSE benchmark which sits at 359. The AIR measures accidents leading to more than seven day's absence from work. For more information on our safety performance please see pages 99 and 100
	2019	104	
	87		
Customer experience Deliver a high level of customer satisfaction which is key to supporting sustainable long-term growth across our markets and client base	2020	92	We remain stable with our high level of customer satisfaction of 92%. The Kier Net Promoter Score, which is based on a client satisfaction score has improved to 55 (2018/19: 48)
	2019	92	
	92%		
Employee engagement Achieve continuous improvement scores in employee engagement surveys	2020	63	A new programme of recording employee engagement has started and instead of the yearly survey, we will be conducting regular pulse surveys throughout the year to find out what our employees are feeling, what we're doing well, and understanding how we can improve. The latest survey recorded an engagement rate of 63%
	2019	55	
	63%		
Payment performance Maintain a good relationship with supply chain partners	2020	38	We continue to make sustained improvements with our payment data with the days to pay suppliers improving to 38 days. We know there is more to do and the plan to ensure continuous improvement is a key focus for us
	2019	41	
	38 days		
Environmental responsibility⁶ Reduce our consumption of energy and greenhouse gas emissions per £ revenue	2020	23.4 tCO ₂ e	We have delivered substantial improvements through our 30 by 30 strategy. In support of the UK Government's commitment to achieve net zero emissions by 2050, we have launched a new approach to sustainable delivery which is captured in our framework 'Building for a Sustainable World' and will be reported on from next year
	2019	22.7 tCO ₂ e	
	23.4 tCO ₂ e		

Turn to the Sustainability section on pages 42 to 55 for more information

Delivering when it matters

Our COVID-19 response

Helping the NHS

Connecting communities

Providing critical services

Our teams across the Group have worked tirelessly to deliver vital infrastructure and services to communities across the UK.

Following the outbreak of COVID-19, we continued to maintain the UK's highways networks, deliver vital maintenance to people's homes, provide Facilities Management (FM) services to the NHS, build schools and hospitals, deliver critical national infrastructure and provide key services to the water, gas, power, telecoms and rail sectors.

It was been more important than ever for us to help and support the communities we serve.

Simply, it was the right thing to do.

Working together safely

The health, safety and wellbeing of our people continues to be a top priority and in response to COVID-19, we continue to be agile in our response to ensure the safety of our workers. We implemented new Site Operating Procedures and throughout these challenging times we have followed, and continue to follow, Government guidance to ensure our sites operated safely and in full compliance.

From infrastructure projects including HS2, to construction projects and utility services across the country, we implemented new ways of working that keep our colleagues, clients and customers safe.

Helping the NHS

In response to COVID-19, the NHS needed our support and we delivered. We are proud to have been involved in three surge hospitals; NHS Louisa Jordan in Scotland, NHS Nightingale Bristol and Bay Field Hospital in Swansea.

We also supported the NHS and its frontline workers in other ways, including bolstering its broadband at a call centre in Sussex to cope with more calls and emails and our teams have been providing FM services to 16 hospitals.

Helping the NHS (continued)

NHS Louisa Jordan, Scotland

The challenge

In response to the COVID-19 pandemic, Scottish Government wanted to convert the Scottish Event Campus (SEC) into a temporary hospital that would provide the NHS with additional capacity. This was of national importance and time critical, and required an agile response that would also comply with all social distancing measures.

The solution

Appointed under Frameworks Scotland 2, Kier and three other contractors united and worked collaboratively with NHS National Services Scotland, Scottish Government, the British Army and others, to convert the events space into a hospital that provided 1,000 beds.

At the peak of construction, over 550 contractors were on site safely carrying out works. Over 23,000sq m of flooring was laid, and 135,000m of cabling installed for lighting and power sockets.

The impact

In just 20 days the SEC was converted into a national facility with space for 1,000 patients. Scottish Government always said they hoped it would not be used, but it was essential to have it ready in case it was.

NHS Louisa Jordan and the other temporary hospitals are also set to bring about longer-term changes, with the consideration of flexibility and repurposing central to the construction of new hospital buildings.

“It has taken just under three weeks to design, construct and mobilise NHS Louisa Jordan. This has only been possible thanks to all of our contractors working around the clock to make sure we are ready to support the NHS in Scotland.

Because of your efforts, we now have a safe, effective and high-quality environment which stands ready for patients if required. On behalf of the entire NHS team, I would like to say a sincere and heartfelt thank you to Kier for their involvement and remarkable contribution to the delivery of our hospital.”

JILL YOUNG
Chief Executive of NHS Louisa Jordan

Helping the NHS (continued)

“It is a phenomenal achievement to have designed, built and prepared a hospital for use in such a short timescale and this has been a real team effort. Together with doctors, nurses, paramedics, the military and many others, the work of Kier’s construction engineers means that we are ready to care for patients with compassion, should the need arise. I am extremely proud to have worked with the whole team in the delivery of this project.”

BRIAN JOHNSON
Director of Estates,
NHS Nightingale Hospital Bristol

NHS Nightingale Hospital Bristol

The challenge

Following the outbreak of COVID-19, the NHS required temporary hospital settings, known as NHS Nightingale Hospitals, to be set up across England. The purpose of these temporary hospitals was to provide increased capacity for the NHS, should it be required.

In the south west, the venue for the surge hospital was the conference centre at the University of the West of England (UWE Bristol). In just 20 days, the space needed to be completely transformed and handed over to the NHS.

The solution

Procured through the P22 Framework, Kier was the sole contractor appointed for this NHS Nightingale hospital. Over a weekend, the project was mobilised with colleagues from across Western & Wales assisting.

Working collaboratively with NHS England and NHS Improvement, including its medical and estates team, the MOD, UWE Bristol, BDP, Faithful+Gould and others, Kier and its local supply chain helped to construct the temporary hospital that could support up to 300 patients. The teams set up 300 intensive care beds, which included oxygen facilities.

The impact

The pace at which this hospital setting was created meant it was ready as an 'insurance policy' to care for critically ill patients with COVID-19 in the south west.

Connecting communities

Keeping customers connected during COVID-19

The challenge

At the end of March, the UK Government introduced a period of lockdown where the nation was required to stay at home and only go out if it was essential. With customers staying at home, coupled with the driest spring since records began, demand for water increased and it was vital that the network could cope. It was essential that South West Water kept the taps running during this time.

The solution

Over the last 25 years, Kier has been providing its services to South West Water and as a result of COVID-19 it was necessary to adopt new ways of working to maintain social distancing, and for our 200-strong team to carry out works in line with Public Health England's guidance and in compliance with the Construction Leadership Council's Site Operating Procedures. This included staggered shift times and one person only, per vehicle.

Our services include a 24/7 reactive service, including mains network repairs and maintenance. During the first month after lockdown, we repaired a number of large diameter burst pipes in challenging locations.

This included a 36-inch diameter raw water pipe (carrying water for treatment), buried 5m deep and supplying the main water treatment works at Pynes which serves Exeter and surrounding areas which, if not fixed, would mean 20,000 homes could potentially lose their water supply. Over the course of a weekend, our teams meticulously carried out an operation, utilising all rapid response equipment to stop the leak and ensure continuity of service for residents in the area.

The impact

Over four weeks, the team repaired over 1,300 leaks and burst pipes and carried out 70 sewer repairs and our level of service did not dip during this time. Works were carried out safely and successfully in order to deliver essential services and keep communities connected.

Our teams are often working in remote places, above and below ground at various times of the day. Our presence may not always be visible to the communities we serve, but what we do ensures communities across the UK are connected and able to switch the kettle on, run a shower or surf the internet easily, swiftly and safely. During this unprecedented time our teams:

- Connected 5,000 residents to broadband for one of our clients
- Restored water to more than 20,000 homes by repairing a leak on the water network
- Were on call to provide emergency repairs to over 25,000 homes
- Collected waste from 140,000 households.

“A big thanks to our contractors Kier Group. The team repaired a 10” main on Easter Sunday. Minimal disruption was caused as our team were busy tankering to keep customers taps flowing. Thank you all.”

SOUTH WEST WATER –
TWITTER POST

Providing critical services

In February, we were appointed to a 15-month interim highways contract for Birmingham Highways Ltd, which includes the city's traffic operations, planned and reactive maintenance, inspections and winter servicing. It covers more than 2,500km of road and 5,000km of footways, as well as 846 structures, three tunnels, 94,000 lighting columns, 76,000 trees and the city's traffic control system.

Birmingham highways

The challenge

To ensure no disruption to the service, it was vital that we started to mobilise the contract during the standstill period; as this process would, on average, take six months, this proved invaluable in giving our mobilisation team an additional two weeks to implement their detailed mobilisation plan. During the mobilisation period COVID-19 struck and for the last two weeks all employees that were due to Transfer of Undertakings (TUPE) to Kier, as well as the mobilisation team, were all required to work from home in line with Government advice.

The solution

Six weeks is an incredibly short period of time for mobilisation, and the final two weeks having to be done without face-to-face meetings made it even more challenging. Our mobilisation team had

pulled together a detailed plan and when COVID-19 lockdown was implemented, it meant that 180 office-based employees now had to work from home and this provided a significant challenge as all new employees required IT equipment and it meant a number of employees needed to shield.

The impact

A dynamic approach was taken to mitigate impacts with all TUPE conversations brought forward and undertaken online, additional welfare vans ordered to enable social distancing and sanitisation for meetings and equipment exchange. Additionally the welcome to our new colleagues had to be radically changed and inductions and interactive introduction sessions all took place virtually to ensure everyone had the process and tools needed to do the job.

“From the outset, the Kier team progressed the mobilisation with exemplary professionalism and delivered their plan with a controlled calmness whilst tackling every challenge thrown their way. Not only was a smooth mobilisation successfully achieved on time within an intense six-week programme but two of those weeks were in lockdown as a result of coronavirus. After such a positive mobilisation, we’re looking forward to the future of this project with Kier.”

MICHAEL MURRAY
Service Manager Birmingham Highways Ltd

Building for a sustainable future

At Kier our purpose is to sustainably deliver infrastructure which is vital to the UK.

For over 90 years we have been delivering for communities across the UK, and now, more than ever, it is important that we do this sustainably.

Our journey so far

We have a proud history of setting and achieving our carbon reduction targets to mitigate our climate impact. In 2015, we launched our Responsible Business, Positive Outcomes strategy which committed the Group to a 10% reduction in greenhouse gas (GHG) emissions by 2020. Due to the effectiveness of our efficiency initiatives, we achieved the 10% reduction target in 2016. In 2017 we launched a more ambitious programme, committing to reducing our energy consumption by 30%/£ revenue by 2030 under our 30 by 30 strategy. By the end of FY19 we had delivered 83% of the 30 by 30 programme and reduced our carbon footprint by a further 10% against an FY18 baseline.

In 2019, the UK Government declared a climate emergency and announced its ambitions of achieving net zero emissions by 2050. The UN also declared it the 'decade of action' and outlined its Global Goals so the focus on delivering our works sustainably has never been greater.

Going forwards

To support this, we launched our new sustainability framework – 'Building for a Sustainable World' – in July 2020. Our new approach to sustainable action focuses on building on the good work our core businesses have previously undertaken in environmental protection and the creation of social value.

We see sustainability as a mindset that seeks to create a resilient, purpose-driven business by safeguarding three vital features: a resilient environment; a resilient community (workforce, supplier and customer base) and resilient profits.

To embed this mindset across our business, our sustainability framework focuses on two key components: environmental sustainability and social sustainability. Both these elements, alongside Performance Excellence, will help to deliver resilient profits. Both halves of our framework are comprised of five focus areas and accompanying goals.

“

It is more important than ever for us to be operating and delivering our projects sustainably. It is at the forefront of our agenda, as a sustainable business makes us a resilient business. We are committed to leaving lasting legacies in the communities in which we operate.

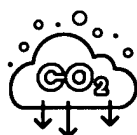
Put simply, we care about the footprint we leave behind, doing all we can to prevent environmental and social harm, as well as replenishing our natural systems and renewable resources.

”

ANDREW DAVIES
Chief Executive

Our sustainability framework

Environmental sustainability



Carbon impact



Pollution prevention



Protection of habitats and natural resources

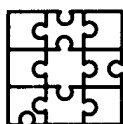


Responsible sourcing



Zero waste

Social sustainability



Diversity, inclusion and respect



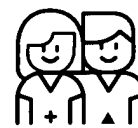
Social value



Stakeholder engagement



Supply chain and human rights



Workforce wellbeing and retention

For more information about our activity to minimise our impact on the environment, visit the Kier website www.kier.co.uk

Going forward, our new framework will be governed through our Sustainability Leadership Forums established at Group level and for each core business. These leadership forums are cross-functional and include critical decision makers. Progress against the framework will be measured through a series of cost-centred KPIs to clearly demonstrate how resilient environmental and community practices lead to resilient profits.

We are in the process of fully transitioning to our new sustainability framework and will report on those new KPIs in our next Annual Report.

For FY20, we continued to measure and monitor progress against our previous environmental targets:

- › 5% reduction in tonnes CO₂e per £m turnover;
- › Reduction in construction material waste produced per £100k revenue;
- › 20% year-on-year reduction in environmental incidents; and
- › Reduce water consumption by 10% by 2020.

Environmental sustainability

Carbon

We recognise the impact climate change has on the environment and society. We are committed to measuring and managing the carbon emissions associated with our business operations and appreciate that we need to lead by example and face the challenges that climate change presents.

Though FY20 was a transition year from our original 30 by 30 strategy, we continued to actively manage our energy efficiency in line with those commitments. In the period, we undertook energy audits in many of our operations, as part of our compliance with the Government's Energy Savings Opportunity Scheme. Through this process we identified further opportunities to reduce emissions and have implemented the following notable energy efficiency activities across the Group:

- › Introduced LED lighting projects within our offices and premises;
- › Provided a selection of high-efficiency, zero carbon hired plant;
- › Engaged with our supply chain partners (notably hired services) to improve the efficiency of the equipment we use; and
- › Began transitioning our Group fleet towards electrification with a selection of electric vehicles now available and charging points being deployed across our office locations.

We recently began the process of implementing our Net Zero approach and identifying the next major steps we can take to reduce our emissions and improve our operational efficiency.

Our dataset covers 94% (2019: 93% based on calendar year) of the Kier Group operations by revenue. Scope 1 fugitive emissions are not included as the data is not available. Reporting follows the requirements of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. Our carbon footprint was quantified by reviewing all operational data available in line with the Greenhouse Gases Protocol standard (excluding joint operations and joint ventures). We have applied the most relevant emission factors sourced from DEFRA's 2019 UK Greenhouse Gas (GHG) Conversion Factors for Company Reporting and other equivalent data sources for our emissions outside of the United Kingdom.

The table below details our statutory carbon footprint for FY20. As part of our Net Zero approach, in FY20 we altered our GHG reporting methodology from the calendar year cycle to our financial reporting cycle. To ensure consistency of reporting between historical annual reports and the FY20 publication, we have stated our emissions for financial years FY18, FY19 alongside our FY20 declaration.

In relation to our scope 1 & 2 emissions our total carbon footprint for the year was 78,536 tCO₂e* which equates to 23.4 tonnes per £m revenue. This represents a 3% increase in carbon intensity compared with the recalculated FY19 figure. This increase is likely due to our change of reporting methodology from calendar year to financial year reporting.

GHG EMISSIONS DATA	17-18		18-19		19-20	
	UK	Global	UK	Global	UK	Global
Scope 1 (tonnes CO ₂ e)						
Combustion of fuel and operation of facilities	95,051	101,793	74,139	86,839	54,669	70,993
Scope 2 (tonnes CO ₂ e)						
Electricity purchased						
› Location-based	9,362	9,447	8,430	8,468	7,510	7,543
› Market-based	6,801	6,871	7,014	7,051	6,178	6,211
Total Scope 1 & 2 (tonnes CO ₂ e)						
› Location-based	104,413	111,240	82,569	95,307	62,179	78,536
› Market-based	101,852	108,664	81,153	93,890	60,847	77,204
Intensity measurement (tonnes CO ₂ e per £m turnover)						
› Location-based	24.7	25.6	20.0	22.7	19.3	23.4
› Market-based	24.1	25.0	19.7	22.4	18.9	23.0
ENERGY USAGE						
	UK	Global	UK	Global	UK	Global
Energy consumption						
Total energy consumed (MWh)	388,810	416,307	322,631	374,771	238,964	305,948

* CO₂e = carbon dioxide equivalent

2%

reduction in
the amount of
construction material
waste produced per
£100k revenue

20%

reduction in
water consumption
in FY20



For more information about our activity to
minimise our impact on the environment,
visit the Kier website www.kier.co.uk

Waste

Our focus in this area has been to reduce the amount of construction material waste produced per £100k revenue, measured by volume, achieving 6.2m³ per £100k (2019: 6.3m³ per £100k). This is a 2% reduction from the previous year.

Our waste reporting comes from a sample representing 45% (2019: 45%) of the Kier Group operations by revenue.

Environmental incidents

We capture, monitor data and record both the type and impact of environmental incidents, so we can learn from both successes and failures. We record this as our All-Environment Incidence Rate (AEIR). Assessed against our historical target of a 20% year-on-year reduction, in FY20 we achieved an AEIR of 90, which represents a 40% reduction against the previous year (2019: 149).

Biodiversity

To promote awareness and action on biodiversity, this year we have continued to sponsor the annual CIRIA BIG Biodiversity Challenge. With regard to our own operations, the Protection of Habitats and Resources is a critical element of our new sustainability framework.

Our ambition is to help maintain a healthy environment for future generations. As we embed this framework into our day-to-day operations during FY21, we will be measuring our biodiversity impact and, from this data, establishing project targets to achieve biodiversity net gain.

Water

In FY20 our water consumption decreased by 20% to 365,110cm³ (2019: 457,157cm³). A key sustainability performance metric for the Protection of Habitats and Resources element of our new sustainability framework is to increase the accuracy and consistency of our water consumption data.

St Sidwell's Point

Our Construction business is currently constructing the UK's first Passivhaus standard ultra low-carbon leisure centre, designed to save up to 70% on annual energy costs.

The challenge

In 2018, Kier was appointed by Exeter City Council to deliver a new state-of-the-art leisure centre, to be built using the ultra energy-efficient Passivhaus standard to support its Exeter Live Better strategy and bolster its city centre regeneration masterplan.

The new leisure centre will provide a healthy, climate-ready, energy-efficient, world-class leisure centre, and includes a wealth of sports facilities, including a 25m eight-lane competition swimming pool, a 20m community pool, a children's confidence pool, a health and fitness centre, as well as a café, soft play area, spa with a hydrotherapy pool which includes a heat experience and treatment rooms.

We started work on the pioneering scheme in January 2019 and in order to achieve the stringent build criteria, we have worked closely with our team and supply chain to carry out the 'Passivhaus Passport' training scheme, giving our people the knowledge, training and skills to meet these requirements, which include 'zero cold bridges', practically airtight construction and a constant supply of fresh air through the building.

Committed to building sustainably, the site has eco-friendly portacabins, with push taps and eco settings on all electrical items as well as bespoke constructed wheel washes for lorries to reduce the amount of water being used. Our supply chain has fully embraced the ambitions of this project, with many companies agreeing to recycle materials and use them on other projects, eradicating waste substantially.

The solution

Everything about St Sidwell's Point has been considered in minute detail. Working collaboratively with Building Greater Exeter, we are also showcasing sustainable construction to the Exeter community through school engagement programmes, providing apprenticeship opportunities and launching a skills education pack that is available to all local residents.

The impact

Once open in 2021, St Sidwell's Point leisure centre is expected to attract around 500,000 visits a year. In 2019, the UK Government declared a climate emergency and Passivhaus buildings provide a robust solution to reducing carbon levels.

“This is a unique site, and the attention to every detail is extraordinary. It is great to see the progress on site and the quality of the build. The enthusiasm and dedication of the construction team is obvious, and it is clear that we are creating something very special here. This will be a landmark building for Exeter, which will be enjoyed by all of our residents across the city for generations to come.”

PHIL BIALYK, COUNCIL LEADER
Exeter City Council Leader

Due to ultra-filtration, the pools will have exceptional water quality with minimal chemical content, which will greatly improve the experience for swimmers compared to a standard pool.

The building has been modelled to withstand predicted changes in climate conditions up to 2080 and its running costs will be significantly reduced, saving up to 70% on annual energy costs in comparison to lower-efficiency building techniques.

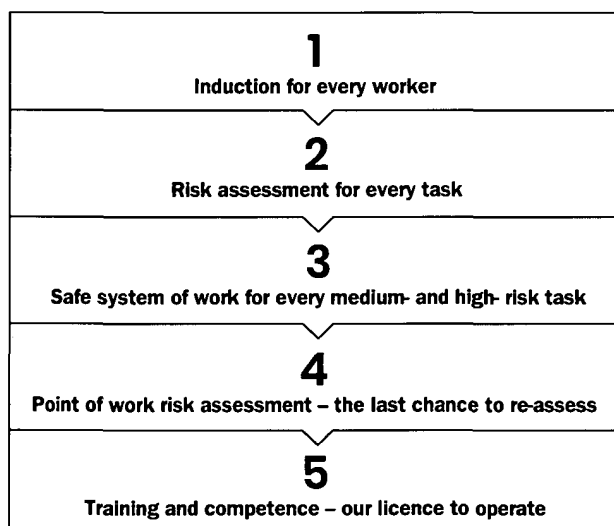
**We are a member of the
UK's Passivhaus Trust**

Social sustainability

Supporting our employees

Safety, health and wellbeing

Safety is our licence to operate and the implementation of our safety behaviours are paramount. We relaunched our five safety, health and environment (SHE) Basics campaign with a new visual identity on sites across the Group at the start of the calendar year.



This is fundamental to our approach to safety and forms part of our Performance Excellence programme to constantly want to be better, with the aim of improving our overall safety performance, as we have done year-on-year over the past five years. The current HSE industry average Accident Incident Rate or AIR which measures accidents leading to more than seven days' absence from work stands at 359. The safety and wellbeing of our employees and suppliers remain of paramount importance. Although the Group's overall SHE performance has improved significantly year-on-year since 2015, the average 12-month AIR (1.12) and average 12-month AAIR (363) increased, by c.32% and c.9%, respectively, as compared to the equivalent figures for FY19. However:

- the Group's AIR and AAIR at 30 June 2020 of 87 and 304, decreased by c.16% and c.15%, respectively, as compared to the equivalent figures at FY19; and
- the Group's AIR and AAIR have decreased by c.59% and c.54% compared to the equivalent figures for FY16.

See the Safety, Health and Environment Committee report on pages 99 and 100 for further information on this.

Due to the COVID-19 outbreak, our sites teams had to adapt to new ways of working almost overnight. We issued our own Site Operating Procedures to ensure all businesses in the Group were able to effectively operate and these are based on Public Health England guidelines. Along with our industry peers and the Construction Leadership Council, we continually updated our Site Operating Procedures as guidance changed.

We continued to operate successfully across 80% of our sites at the peak of lockdown, and these operating guidelines along with the five SHE Basics, now form part of our ongoing approach to site safety.

The Health and Safety Executive (HSE) took on the responsibility of ensuring the Site Operating Procedures were enforced, as well as making COVID-19 a notifiable disease under RIDDOR.

The physical and mental health of our employees is of paramount importance, we have trained over 700 mental health first aiders, have a dedicated trauma counselling service and an employee assistance programme which is accessible 24/7, via both phone and online, to anyone in the business should they need it.

As a result of COVID-19, we have raised awareness of all of this dedicated support as well as signposted key external resources such as MIND and the UK Mental Health Organisation.

Our people

Kier is a people focused business and it is imperative that we attract and retain the best people and develop their skills and talents. Our people make the biggest impact within our business, for both our clients and wider society.

During the year, we introduced a new set of values across the business which underpin our Kier culture: Collaborative, Trusted and Focused. Our people are proud to work for Kier and we want to ensure that everyone is delivering to the best of their abilities. Our projects are only as good as the high performing teams we have, working together to achieve more for our clients.

Our values form the basis of our refreshed behaviours framework which has been rolled out as part of our new approach to performance and our capability framework, meaning that all employees going forward will be measured consistently on what they do and how they do it. This process feeds into our refreshed approach to talent development and succession planning, to ensure we capture and develop those who want to progress their careers within the Group. The leadership team is committed to listening to what our people feel about working for Kier and taking action to improve the employee experience.

We encourage a culture of open communication between our employees and senior management. This year, we have introduced a new employee engagement survey tool 'Your Voice', which will invite people to tell us how they feel about working for Kier through a series of regular online surveys. The feedback will then be acted on by our senior management team. Our first survey had a response rate of 45% compared to an average return rate of 30% for this type of survey. The feedback from our previous engagement survey fed into our new performance and capability framework as described above.

Our Performance Excellence workstreams that underpin the Group strategy have been developed in conjunction with our employees. Each part of the programme has involved working groups from across the businesses and functions.

As part of our employee engagement we provide information to our employees through our intranet, newsletters, webinars, managements calls, and formal and informal face-to-face meetings.

Employee roadshows are held across the business to update and consult with employees at key times of the year and each business also engages with their employees through their own internal communication channels.



Go online to find out more: www.kier.co.uk/corporate-responsibility/our-people/

The Group Yammer channel gives employees the chance to collaborate and discuss key topics in an online forum and we encourage employees in their wider use of social media within clear guidelines.

In 2019, we held the fourth annual Kier Group employee awards. Nominations were of a high quality and employees from across the business were nominated in categories that included above and beyond, rising star and customer focus.

It's also important that we offer our employees the opportunity to save and invest with the Group through our annual Sharesave scheme. Employees choose a fixed amount to save and after 36 months they can receive all their savings back as cash or buy Kier shares at a 15% discounted price.

The Board has an important role in overseeing the Group's culture and how it engages with its workforce. Each member of the Board has responsibility for engaging with the workforce and subsequently reporting back to the Board. The Board agreed that the focus of Directors' visible leadership tours would be extended to address wider employee engagement issues.

The Board agreed that, in the 2021 financial year, responsibility for engagement with the workforce would remain with the Board, collectively, and that, so as to supplement the work of individual Directors, the Group HR Director would be invited to Board meetings to discuss a range of matters, including engagement with the Group's workforce. Please see page 78 for more details.

Apprenticeships

Our apprenticeship numbers have continued to increase, mainly due to the conversion of qualifications into new standards. The conversion of management qualifications has influenced a mindset change, that apprenticeships are for all, not just for the blue-collar occupations. With a quarter of our apprentices over the age of 30, there comes an acceptance that this is the new normal.

We are committed to attracting new talent in to our business that best reflects the communities we serve, and we have a number of strategies in place to support apprenticeships, including our participation in the Energy & Utility Skills Partnership, carrying out nationwide schools' engagement programmes and providing training opportunities through our partnership with End Youth Homelessness. We have helped to create over 80 permanent new jobs on the Luton DART project for local apprentices, graduates and other new entrants.

Diversity, inclusion and respect

We have talented teams delivering for our clients across the whole of the UK and we want our workforce to reflect the communities in which we work.

We are committed to developing an inclusive workplace, creating an environment which allows our people to thrive and enhancing diversity to deliver more value for our employees, clients and customers.

As part of Performance Excellence we have, this year, introduced a new framework to help us attract, nurture and progress talent within our business. Our new values also place a greater emphasis on how managers, leaders and their teams create a more inclusive environment.

We are also cultivating a working environment that is more attractive for employees by increasing flexibility through our new Smart Working policy in 2019, which embraces agile, flexible and remote working practices.

Gender diversity by grade

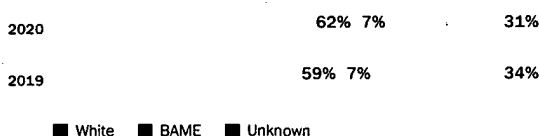
	Male 2020	Female 2020
Board	5	2
Senior Managers	219	35
Other	8,584	2,724

Excluding International Employees

Gender diversity (%)



Ethnic diversity (%)



Encouraging women to join Kier and accelerate their careers in to management and leadership roles remains critical to Kier. In FY19, 47% of our graduate recruits were female, up from 30% in FY18 and within touching distance of our target of 50%.

To strengthen and diversify our search for talent we have also broadened the channels we use to attract people to Kier. The content we publish on our recruitment advertising platforms aims to attract people from a broad spectrum of backgrounds and industries, who might not otherwise have considered a career within the built environment. This is supported by unconscious bias training for our hiring community and the use of gender-neutral advertising software.

The Group is an equal opportunities employer and considers applications for employment from disabled persons. We provide facilities, equipment and training to assist disabled employees and should an employee become disabled during their employment, efforts would be made to retain them in their current role or to explore opportunities for redeployment in the Group.

Our Highways business and EKFB, our HS2 joint venture, are both Disability Confident employers and Kier Highways has also been a Disability Confident Leader since 2019, enabling people of all abilities to come into the workplace.

We need to continue shifting mindsets and highlight the benefits of a diverse workforce, as well as equipping employees and managers to make flexibility work for us all.

Gender pay

We launched our third Gender Pay Gap report this year and whilst gender is just one aspect of diversity, we remain steadfast in our commitment to create a diverse, inclusive culture, one which supports and encourages everyone to give their best, and bring their whole selves to work.



Go online to find out more: [www.kier.co.uk/
how/equality-diversity-inclusion/](http://www.kier.co.uk/how/equality-diversity-inclusion/)

Although we have seen reductions in both our mean and median pay gaps this year our gender pay gap is slightly greater than the UK national mean average (19.1% for Kier vs. 17.3% UK mean average).

Gender pay gap

2019	19.1	14.4
2018	21.2	17.7
2017	22.7	20.2

■ Mean average ■ Median average

The mean gender pay gap for 2019 is 19.1% compared with 21.2% for 2018 (median gap of 14.4% for 2019 compared to 17.7% for 2018).

As with many other employers, our workforce profile has an impact on our gender pay gap, because we employ around three times more men than women and a greater proportion of our senior leadership population is male.

Large sections of our business rely on employing large numbers of people with qualifications in science, technology, engineering and mathematics (STEM) related fields. We, like others in similar industries, face challenges recruiting female employees with STEM qualifications and experience because there are significantly fewer women who study and work in these fields.

We recognise we have more work to do, as we look to bring about change over the longer term.

Employee behaviours

We want to ensure all our employees understand what standards and behaviours are expected from them, as well as what they should expect from Kier as their employer. This includes helping them to understand the policies and processes which drive our operations and giving them the necessary skills to deal with the issues they might face.

To support this, and as part of Performance Excellence, at the start of 2020 we launched our new Operating Framework which sets out the governance within which the Group operates. The processes within the framework ensures that our key policies and controls are embedded in our businesses and each business signs off on its adherence to those through the Operating Assurance Statement.

At the same time as launching the Operating Framework we rationalised and updated the Kier Code of Conduct and our core policies to better align with the Operating Framework. To ensure all of our employees had seen the new documents, we provided each of them with both on and offline copies, and also provided training, to ensure there was awareness and understanding of the Operating Framework and Code of Conduct across the business.

The online training for the Code of Conduct saw a 50% completion rate in the first three months and our offline employees are also being taken through appropriate training.

Modern slavery

The issue of modern slavery continues to be a concern within our industry and is the principal direct source of the risk of failing to uphold fundamental human rights.

We continue to take an industry-leading role on this important topic and have been working with a number of stakeholders including the Gangmaster and Labour Abuse Authority (GLAA) as well as our clients to develop greater understanding of the risks posed. We were one of the first signatories to the GLAA Construction Protocol and have hosted a number of events to raise awareness with our clients and supply chain.

A secondary concern, is the upholding of standards through our own business and our supply chain. In addition to our policy on modern slavery, we produce an annual statement which addresses the main risks and issues for our business and the activity being taken to address these.

Whistleblowing

We continue to raise awareness of the Kier whistleblowing process including the confidential and independent helpline provided for our employees and supply chain partners. During the year, there were 111 issues raised, an increase of 15 over the previous year. This could, in part, be due to an increased confidence to raise issues on behaviours at work and greater awareness of how to raise concerns.

All issues were investigated with approximately a third resulting in action being taken including identifying further training opportunities for those individuals concerned. No material issues were identified relating to human rights, including modern slavery and human trafficking, or anti-bribery and anti-corruption.

Social value

Delivering for our communities

Long after a contract has been delivered, communities remember us for the positive legacy we leave behind.

Although a national business, Kier works at a regional and local level, which means our employees generally work in the areas where they live; we have an extensive network of skilled and local supply chain partners, and together we look to provide job and training opportunities in areas in which we work.

As a business, what we do directly allows for a positive impact and this then generates wider value for society. This spans the breadth of society; from being the first company in the built environment to support 16-25-year olds that have spent time in care through the Department for Education's Care Leaver Covenant, to our support of veterans having been one of the first companies to sign the Armed Forces Corporate Covenant in 2013.

We are proud of the impact we are having. In the last 12 months, we have worked with an independent organisation, Social Value Business, and as a result of this, are the first construction company in the UK to gain the Social Value Quality Mark 2 (SVQM). SVQM is a standard that Social Value Business has created to set out in a clear way an organisation's commitment to, and delivery of, social value. We are fully transitioning to our new sustainability framework in FY21 and will report on those new KPIs in our next Annual Report.

1st UK construction company

to be accredited by Social Value Business

Social value today

Following the outbreak of COVID-19, we have continued to work with communities and deliver social value in new ways. In addition to the surge hospitals (see pages 32 to 37 for more information), we have provided help to those on the front line and to those most in need.

- Our Specialist Services team continued to deliver emergency and essential repairs, fire safety works and provide FM services to 16 hospitals, 24 police stations and 67 fire stations
- In March, our telecoms team within Kier Utilities & Rail played a significant role in tripling the broadband capabilities, with a fibre optic upgrade at the NHS Trust in Sussex. The team responded quickly in order to help the NHS deal with its influx of calls and mails
- Our Birmingham Highways team donated 40,000 pairs of gloves to Birmingham City Council which were used by care teams in the city
- Working with Shropshire Council and the NHS, our Shropshire Highways team helped to supply signage at a new drive-through coronavirus assessment centre at Shrewsbury Town Football Club's stadium
- Together with Gosport Borough Council (GBC), our Housing Maintenance team helped to set up emergency accommodation for people in need of safe, secure and clean accommodation, including those who are currently homeless and individuals coming out of hospital with nowhere suitable to live, as GBC's usual temporary accommodation was not available. We helped source materials and turned portacabins into fully functional and comfortable spaces for people.

As school engagements and work experience placements were put on pause during lockdown, our teams across the country found new and innovative ways to continue connecting with young people and inspiring them to consider a career within construction.

Virtual work experience was offered through an education charity, Speakers for Schools, and participants were given a bespoke project to undertake in order to design, plan and cost a tender for a new shopping centre. Kier employees also volunteered to provide advice and expertise as well as sharing their own career stories. All of this was done without young people having to leave their homes.

We also held the first virtual meet the buyer event in Wales with over 50 businesses taking part to discuss requirements for three school projects set to be delivered. During the online-only event, each business was allocated a 15-minute time slot to speak one-on-one with the project team to find out more about the schemes, the requirements and timings.

The Kier Foundation

We also support communities through the Kier Foundation which is a standalone charity funded by Kier employees, for the causes Kier people choose to support. The charity has donated over £2m to causes since the charity began in 2012.

During the period £162,908.13 was raised by Kier employees and £190,667.55 donated to 125 local and national charities through the corporate charity partnership and match-funding schemes.

All income is generated via Kier employees through fundraising activities and the Group supports The Kier Foundation by funding the cost of its operations.

The Kier Foundation is responsible for managing the Kier corporate charity partnership, with a charity partner chosen every two years. In 2018, the chosen partner was The British Heart Foundation and over the two-year period, £285,000 was raised, £35,000 more than our target, by Kier employees to fund a research project into cardiac arrests. In addition, over 3,000 Kier employees have been trained in CPR against the partnership target of 1,500.

In addition to the corporate charity partnership Kier also adopted a social cause to develop a skills, education and training resource for homeless young people through a partnership with End Youth Homelessness. In the period The Kier Foundation donated £50,000 to End Youth Homelessness to provide 1,273 coaching hours to give tailored, one-to-one support to young homeless people to give them the tools they need to build a brighter future. In August, End Youth Homelessness became our corporate charity partner and we have created a new campaign – Shaping Futures – which has three objectives over the next two years:

- **Shaping Lives:** to raise £200,000 to fund an employment, education and training programme to give one-to-one, tailored support to 160 homeless young people across the UK
- **Shaping Homes:** by giving 'gift in kind' donations of £10,000 to support and help local youth homeless charities through volunteering and renovation of youth hostels and homes
- **Shaping Careers:** by providing opportunities for young homeless people through work experience and apprenticeships on local projects spanning the UK.

The Kier Foundation organise fundraising campaigns and initiatives throughout the year including an employee lottery called The Winners Club. Each employee that joins The Winners Club is asked to pay £1 per week. All the proceeds are split evenly between the employees winning the lottery and good causes supported by The Kier Foundation via match funding schemes.

Last year this employee lottery generated £177,716 which was split equally between charitable causes and the winners.

The Kier Foundation supports Kier employees with their fundraising efforts by providing a match funding scheme of up to £200 twice per year. There were 305 successful applications this year, leading to £55,696.22 being donated to 58 different charities.

Kier business units can also apply for up to £5,000 from The Kier Foundation to assist with local community projects. Businesses need to demonstrate they are donating time and money to apply. Five projects were supported last year and £13,950 donated through this scheme.

Many fundraising campaigns happen each year across Kier Group including an initiative organised by Kier Construction called Boots on for Building, a UK-wide active challenge where £128,942.50 was generated for 32 different charities.

Social value in action

To bring this to life these are just some recent examples of ways our teams and projects have been giving back to the communities in which we work.

Leaving a lasting legacy: Croesyceiliog Comprehensive School

Appointed by Torfaen County Borough Council, Kier delivered a new £30m building for Croesyceiliog Comprehensive School in Cwmbran as part of the Welsh Government's 21st Century Schools programme. Providing 1,200 school places, for a town with a population of 50,000, the new school was designed to be a focal point for the whole community.

Pivotal to the successful completion of this school was Kier's skilled supply chain, of which 50% was from South Wales.

The Considerate Constructors Scheme awarded the project 46/50 and remarked that it was "consistently achieving extremely high standards within the industry".

We excelled on all of its social value targets for this project and, over a two-year period, creating 89 employment opportunities and provided 800 training weeks, 224 graduate weeks, and 107 work placement weeks.

With this being such an important project for the local community, our team engaged with local residents for nearly 2,000 hours, showcasing progress and also providing regular opportunities for people to ask questions and find out more about the project and the construction industry.

With an aim of inspiring future generations to consider a career within the built environment, the team also carried out a school's engagement programme, dedicating 2,750 hours to nearly 5,000 students at Croesyceiliog.

This included an ambassador programme, whereby pupils would regularly meet the Kier team, tour the site and report back to pupils at the school. 14 year-old Rohan Wells, said "we had regular meetings with Kier to discuss how the school was progressing and what we could do to make it better".

"The Kier team, from inception of the project, has worked in a fully collaborative manner with Torfaen's in-house consultant team in order to produce a first-class facility for the pupils, staff and community of Torfaen."

JOHN LEWIS
Group Leader Property Construction,
Torfaen County Borough Council

S-Skills for Highways, Surrey Highways

An innovative partnership between Surrey County Council, Kier and Brooklands Motor Museum that brings vulnerable people further from employment into the workplace.

The challenge

Authorities are facing increasing demand on adult and children's services, despite falling budgets. In Surrey, rising parental aspirations and low unemployment rates make it difficult to meet contract goals for employing local apprentices, which means workers are recruited from further and further afield.

The solution

A 16-week S-Skills for Highways programme which is operated in conjunction with Surrey County Council and provides vulnerable young people and adults the opportunity to learn basic highway works that will help improve their chances of employment.

The programme applies the principles of restorative practice to help assess the needs of young people on their programme and support progress. This means working with them to recognise the setbacks or difficult situations they have faced in the past and to understand how to respond.

The impact

Since the programme started we have:

- › run 7 cohorts;
- › trained 89 candidates;
- › provided over 9,600 hours of paid work trials;
- › offered 12 candidates full-time Kier apprenticeships;
- › helped 10 candidates secure full-time jobs with others; and
- › helped 10 candidates return to education.

"Since I started at Kier my confidence has grown. I feel able to talk and interact with lots of people. This role has offered me so many opportunities, including going away on an apprenticeship training event.

With my apprenticeship, I am learning how to apply the knowledge from my college course into my every day work. I will gain a professional qualification and look to further my development in a working environment."

FREDDIE SEAL
S-Skills cohort

Our customers

We have built a reputation for successfully delivering some of the largest, most complex and celebrated projects across the UK, as well as hundreds of smaller but equally important local projects.

We work closely with our clients through quality, long-term frameworks and 85% of our client base is from the public sector. As a strategic supplier to Government we regularly engage with Government departments and the Cabinet Office. Our senior management teams are responsible for managing customer relationships.

We have a key account management approach to engaging with clients and our supply chain to ensure that they are aware of developments within the Group.

Our success is built on the collective strength of great supply chain partnerships and collaborative working. Together we operate at scale and with agility as high-performing teams. For more detail on how we've worked together during COVID-19 please see the Delivering when it matters section on pages 32 to 41.

We know that our supply chain are an extension of Kier and as such they are key to the successful delivery of every project that we undertake. We strive to build teams of like-minded people who share our values, as well as our rigour for safety, our approach to quality, sustainable delivery and our drive for innovation and best practice.

Our rigorous customer satisfaction programme shows that our scores have remained stable; our consistently high level of customer satisfaction remains at 92% combined with an improvement in our net promoter score to 55 (2018/19: 48).

Innovation is a key driver within our businesses and we are currently working with the Construction Innovation Hub on its Platform Design Programme. Alongside Government departments and other industry partners we are developing a kit-of-parts to meet the demand and support the delivery of public sector social infrastructure, including schools and hospitals of the future. Collectively, we are working to develop, refine and install a process for a proof-of-concept building to showcase how this innovation can be applied

Our work at the new prison in Wellingborough is offering a pioneering approach to offsite manufacture and digital technologies. See page 15 for more information.

Supporting SMEs

Our network of offices and local workforce provides us with great insight into the local communities and reinforces our commitment to providing a legacy. Working locally to create employment, strong regional supply chains and SME partners, we cascade our social value initiatives across our project workforces, to ensure impact is delivered to the widest effect.

We target over 80% SME use on our public sector framework projects and measure performance using KPIs to drive continuous improvement (of the total 7,300 subcontractors utilised in FY20 88% were classed as SMEs).

For example, in delivering over 500 projects valued at over £400m under the Scape National Minor Works Framework, on average 99% of our supply chain spend has been with SME organisations.

To maintain a sustainable supply chain, we hold regular 'Meet the Buyer' events, to encourage the introduction of new local supply chain/SMEs members to our project teams. We provide skills and training opportunities to the supply chain, in particular SMEs, through our Employment and Skills Plans.

Payment practices

In 2017, the Government launched new regulations called Duty to Report on Payment Practices and Reporting (PPR).

This requires all UK companies of a certain size to send data on their payment practices with third parties.

This means 14 Kier trading entities are required to send data to the PPR Government portal every six months. This data covers three key metrics:

- › The number of days it takes to pay suppliers;
- › The % of invoices not paid to terms; and
- › The % of invoices paid within 30 and 60 days, and beyond 60 days.

As part of our strategic plan, a number of decisive actions were taken around the improvement of payment practices to our supply chain partners, which over the last year has resulted in continual improvements being made across the Group.

The latest data, up to 30 June 2020, highlights:

- › Kier paid 84% of all suppliers within 60 days in the six months to 30 June 2020, up from 81% in the six months to 31 December 2019;
- › The average payment days remained consistent at 38 days; and
- › Our seven key trading entities have recorded improvements to the payment of invoices within 60 days between 1-11%.

Over this reporting period the Group has provided an agile response to our supply chain following the outbreak of COVID-19. Teams from across the business worked with clients to ensure payment practices to our supply chain remained consistent and unaffected during this time.

Our finance team has also continued to work with the Office of the Small Business Commissioner and our focus on payment practices is now being recognised by external partners, including members of our supply chain and wider stakeholders.

The actions taken by the Group over the last six months has also resulted in Kier Construction, Kier Highways Limited and Kier Integrated Services Limited being reinstated on to the Prompt Payment Code – this means there is only one remaining entity to be reinstated (McNicholas Construction Services Ltd), which is a key focus for the Group over the coming months.

Investors

After a challenging year for all our shareholders, the Chief Executive's review on pages 6 to 11 and the Strategic framework on pages 26 to 29 covers our business plan and priorities moving forward.



Go online to find out more: www.kier.co.uk/supply-chain/payment-reporting/

Non-financial information statement

The table below summarises how we comply with non-financial performance reporting requirements. All Kier Group policies are also available on the Kier website: <https://www.kier.co.uk/investors/corporate-governance/group-policies/>.

Reporting parameter	Companies Act requirement	Kier governance	Kier policy/standards	For additional information
Anti-corruption and anti-bribery	Yes	<ul style="list-style-type: none"> Risk Management and Audit Committee 	Anti-bribery and corruption policy	See www.kier.co.uk/investors/corporate-governance/group-policies/
Business model	Yes	<ul style="list-style-type: none"> Board 	N/A	See pages 24 and 25
Employees	Yes	<ul style="list-style-type: none"> Board 	<ul style="list-style-type: none"> Business ethics policy Code of Conduct Employee privacy policy Equality and diversity Safety and health policy statement Whistleblowing policy and procedure 	See www.kier.co.uk/investors/corporate-governance/group-policies/
Environmental matters	Yes	<ul style="list-style-type: none"> Safety, Health and Environment Committee 	<ul style="list-style-type: none"> Sustainability policy Environmental sustainability 	<ul style="list-style-type: none"> See pages 42 and 43 See pages 44 to 47
Human rights	Yes	<ul style="list-style-type: none"> Board 	<ul style="list-style-type: none"> Business ethics policy Code of Conduct Employee privacy policy Anti-slavery and human trafficking policy Responsible procurement policy 	See www.kier.co.uk/investors/corporate-governance/group-policies/
Non-financial performance indicators	Yes	<ul style="list-style-type: none"> Risk Management and Audit Committee Board 	All policies in the framework apply	<ul style="list-style-type: none"> See pages 30 and 31 See also www.kier.co.uk/investors/corporate-governance/group-policies/
Principal risks and uncertainties	Yes	<ul style="list-style-type: none"> Board Risk Management and Audit Committee 	All policies in the framework apply	See pages 58 to 63, 92 to 98
Social matters	Yes	<ul style="list-style-type: none"> Board 	Social sustainability	<ul style="list-style-type: none"> See pages 48 to 54 See also www.kier.co.uk/investors/corporate-governance/group-policies/

Section 172 statement

We are committed to engaging with our people, our stakeholders and the communities in which we operate, and creating a healthy and sustainable culture.

Duty to promote the success of the Company

The Directors have had regard for the matters set out in section 172(1)(a)-(f) of the Companies Act 2006 when performing their duty under section 172. The Directors consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business.

The table on page 57 indicates where the relevant information is in this Annual Report that demonstrates how we act in accordance with the requirements of section 172.

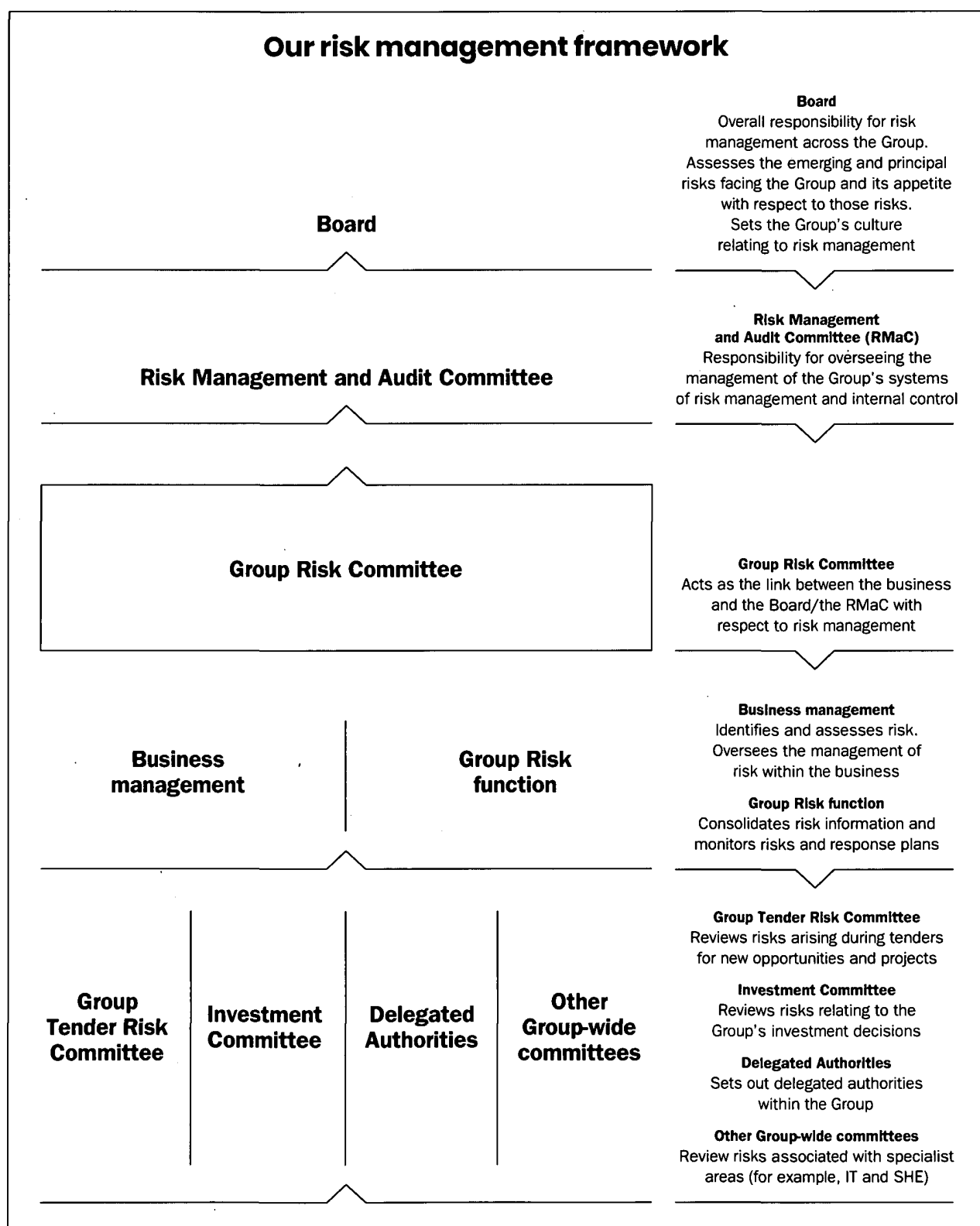
A summary of the key elements of the Group's governance framework, which is designed to ensure that all relevant matters are considered by the Board when making its decisions, is summarised in 'Board leadership and company purpose' on page 77.

The following table provides examples of how the Directors have satisfied their duty under section 172 of the Companies Act 2006:

Duty to promote the success of the Company, with regard to:	For further details see:
The likely consequences of any decision in the long term	Strategic Report: 'Chairman's statement' on pages 4 and 5 'Chief Executive's review' on pages 6 to 11 (inclusive) 'Marketplace' on pages 22 and 23 'Business model' on pages 24 and 25 'Strategic framework' on pages 26 to 29 (inclusive) 'Key performance indicators' on pages 30 and 31 'Risk management framework' on pages 58 and 59 'Principal risks and uncertainties' on pages 60 to 63 (inclusive) 'Viability statement' in 'Financial review' on pages 70 and 71 Corporate Governance Statement: 'Audit, risk and internal control' on pages 90 and 91 Risk Management and Audit Committee report on pages 92 to 98 (inclusive)
The interests of the Company's employees	Strategic Report: 'Chairman's statement' on pages 4 and 5 'Chief Executive's review' on pages 6 to 11 (inclusive) 'Key performance indicators' on pages 30 and 31 'Sustainability' on pages 48 to 50 (inclusive) Corporate Governance Statement: 'Board leadership and company purpose' on pages 77 to 79 (inclusive) Nomination Committee report on pages 87 to 89 (inclusive) Safety, Health and Environment Committee report on pages 99 and 100 Annual statement of the Chair of the Remuneration Committee' on pages 101 and 102 Directors' Remuneration Report on pages 101 to 121 (inclusive)
The need to foster the Company's business relationships with suppliers, customers and others	Strategic Report: 'At a glance' on pages 2 and 3 'Chairman's statement' on pages 4 and 5 'Chief Executive's review' on pages 6 to 11 (inclusive) 'Delivering vital infrastructure' on pages 12 to 21 (inclusive) 'Marketplace' on pages 22 and 23 'Business model' on pages 24 and 25 'Key performance indicators' on pages 30 and 31 'Delivering when it matters' on pages 32 to 41 (inclusive) 'Sustainability' on page 54 'Principal risks and uncertainties' on pages 60 to 63 (inclusive) Corporate Governance Statement: 'Chairman's introduction to governance' on pages 72 and 73 'Board leadership and company purpose' on pages 77 to 79 (inclusive)
The impact of the Company's operations on the community and the environment	Strategic Report: 'Chairman's statement' on pages 4 and 5 'Chief Executive's review' on pages 6 to 11 (inclusive) 'Delivering vital infrastructure' on pages 12 to 21 (inclusive) 'Key performance indicators' on pages 30 and 31 'Delivering when it matters' on pages 32 to 41 (inclusive) 'Sustainability' on pages 42 to 53 (inclusive) 'Principal risks and uncertainties' on pages 60 to 63 (inclusive) Corporate Governance Statement: 'Chairman's introduction to governance' on pages 72 and 73 'Board leadership and company purpose' on pages 77 to 79 (inclusive) Safety, Health and Environment Committee report on pages 99 and 100 Kier website: https://www.kier.co.uk/corporate-responsibility
The desirability of the Company maintaining a reputation for high standards of business conduct	Strategic Report: 'Chairman's statement' on pages 4 and 5 'Chief Executive's review' on pages 6 to 11 (inclusive) 'Key performance indicators' on pages 30 and 31 'Sustainability' on page 54 'Principal risks and uncertainties' on pages 60 to 63 (inclusive) Corporate Governance Statement: 'Chairman's introduction to governance' on pages 72 and 73 'Board leadership and company purpose' on pages 77 to 79 (inclusive) 'Composition, succession and evaluation' on pages 83 to 86 (inclusive) Safety, Health and Environment Committee report on pages 99 and 100
The need to act fairly as between members of the Company	Strategic Report: 'Sustainability' on page 54 Corporate Governance Statement: 'Chairman's introduction to governance' on pages 72 and 73 'Board leadership and company purpose' on pages 77 to 79 (inclusive) 'Division of responsibilities' on pages 80 to 82 (inclusive)

How we manage risk

Effective management of risk is integral to the delivery of the Group's strategic objectives.



Introduction

The Group recognises that a robust approach to the management of risk is fundamental to the Group's operations. During the year, the Group has continued to develop its systems of risk management and internal controls under the newly-established Group Risk Committee and following the appointment of a new Chair of the RMaC.

Oversight

The Board has overall responsibility for the way in which the Group manages risk and for the Group's systems of risk management and internal controls. The Board determines its appetite with respect to the Group's principal risks (which are summarised on pages 60 to 63 (inclusive) and, via the RMaC, assesses the effectiveness of the systems of risk management and internal control which are designed to mitigate the impact of those risks on the Group's operations. Please see 'Audit, risk and internal control' on pages 90 and 91 and the Risk Management and Audit Committee report on pages 92 to 98 (inclusive) for further information.

Risk management process

The Group's Risk and Internal Audit teams work with a network of risk champions, who act as the sponsors for risk management within their respective parts of the business and promote a culture of effective risk management.

Risk appetite

During the year, the Board assessed its risk appetite for the nature of risk that the Group is willing to take so as to inform the parameters within which the business is authorised to operate. Please see 'Risk assessment and risk appetite' on page 90 for further details.

In the 2019 Annual Report, we highlighted certain areas of focus for the Group's risk management to be developed during the 2020 financial year.

A summary of the progress made against these areas of focus is as follows:

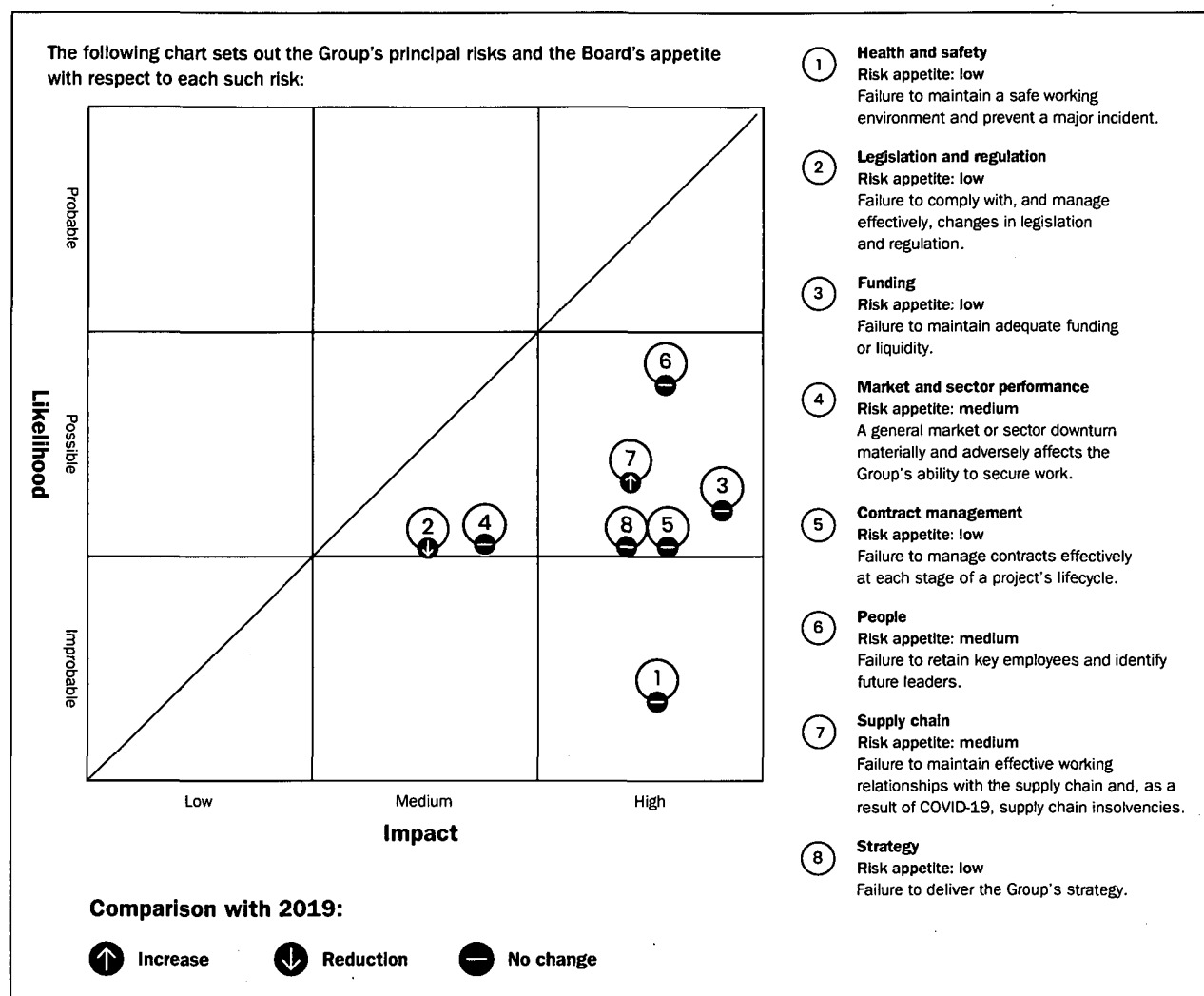
Area of focus	Examples of progress made in 2020
Continuing to review the Group's culture with respect to the management of risk	Consistent sharing of risk management information through a Group-wide portal
Continuing to develop the Group's risk management processes	Greater engagement between the Group Risk function and the business
Continuing to identify ways of integrating risk management practices within the operating model	Risk reporting is part of the Quarterly Business Reviews and the Operating Framework assurance process

Principal areas of focus for 2021

The Group keeps its systems of risk management and internal control under review. In the 2021 financial year, the Group's principal areas of focus, with respect to such systems, are expected to include:

- › Further aligning the Group's risk management framework with the Operating Framework;
- › Developing 'key risk indicators';
- › A review of the internal controls framework;
- › A review of risks faced by the Group which are considered likely to have a high impact but a low likelihood; and
- › Further strengthen the Group's systems of internal controls and risk management based on the three lines of defence model.

Our principal risks



Introduction

The COVID-19 pandemic has had, and may continue to have, a material impact on the way in which the Group operates and the risks faced by the Group. Accordingly, the table on pages 61 to 63 (inclusive) summarises the effect and impact of COVID-19 on the Group's principal risks.

During the year, the Board identified the principal risks and uncertainties facing the Group and assessed its appetite with respect to such risks. Understanding the Group's risk profile, and how the Group manages risk, is central to the Board's decision-making process. The following section contains information about the potential impact of the principal risks identified by the Board, the plans to mitigate them and the threats created by them.

The Board's assessment of risk

The Board's assessment of the principal risks and uncertainties facing the Group; their potential impact; the mitigating actions proposed in respect of such risks; their change in risk profile during the year (in terms of either impact or likelihood); and an indication of the Board's risk appetite with respect to each such risk are summarised below. The risks are not listed in any order of priority. Not all the potential impacts of the risks or mitigating actions are listed.

Changes to the principal risks and uncertainties

The principal risks and uncertainties listed in the 2019 Annual Report have been reviewed to assess their continued relevance in 2020. Three of the risks are no longer considered to be relevant and one principal risk has been introduced.

The risks which are no longer considered to be principal are:

Risk	Reason for change
Operating model	The risk related to the success of the Group's cost savings programme. The programme has materially exceeded its original target
Pre-contract governance	The pre-contract governance is now included in the 'Contract management' risk
Strategy execution	This risk has been replaced with the new 'Strategy' risk

Principal risks and uncertainties

Principal risk	Potential impact	Mitigating actions	Impact/Likelihood	Change in Impact/Likelihood	Board risk appetite
1 Health and safety Failure to maintain a safe and sustainable environment and prevent a major incident. <p>The Group's operations are inherently complex and potentially hazardous and require the continuous management of safety, health and sustainability issues.</p> <p>COVID-19 Impact: high.</p> <p>During COVID-19, the Group has worked closely with its people, clients and suppliers to ensure that its sites and offices are able to continue to operate safely and in accordance with Government guidelines.</p>	<ul style="list-style-type: none"> An increase in safety or environmental incidents on site; The failure to meet clients' expectations, adversely affecting the ability to bid for and win new work; and Financial penalties arising from fines, legal action and project delays. 	<ul style="list-style-type: none"> Continued focus on the five basics of SHE risk management; Implementing the Group's new sustainability framework, 'Building for a Sustainable World'; and Setting a tone from the top, through activities such as senior management visible leadership tours. 		No change in likelihood or impact	(L)
2 Legislation and regulation Failure to manage effectively changes in legislation and regulation. <p>The sectors in which the Group operates are subject to increasing scrutiny from stakeholders, oversight from regulators and requirements introduced by new legislation or regulation.</p> <p>COVID-19 Impact: no material effect.</p>	<ul style="list-style-type: none"> Penalties for failing to adhere to legislation or regulation; Increased operating costs of compliance; and The loss of business and resultant reputational damage. 	<ul style="list-style-type: none"> Regular engagement with Government and Government agencies with respect to the Group's performance; Monitoring of, and planning for, the impact of new legislation and regulations; and Collaborative engagement with external stakeholders. 		Reduction in impact	(L)
3 Funding Failure to maintain adequate funding or liquidity. <p>Reduced availability of financing options resulting in an inability to maintain adequate funding or financial liquidity and an inability to execute the Group's strategy effectively.</p> <p>COVID-19 Impact: medium.</p> <p>The Group has worked with its clients and supply chain to maintain liquidity during COVID-19. The Group has agreed waivers and revised financial covenants with its lenders and worked with other stakeholders to ensure sufficient flexibility under its principal finance facilities remains available.</p>	<ul style="list-style-type: none"> The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees); Conducting existing business becomes increasingly challenging; May adversely affect the Group's ability to raise equity; and The loss of future business. 	<ul style="list-style-type: none"> Effective cash forecasting and working capital management; Following COVID-19, the Group has agreed waivers with its lenders in respect of the financial covenants for the test period ended 30 June 2020 and has agreed revised financial covenants which will apply for the going concern period; Collaborative engagement with customers, HMRC, pension scheme trustees, banks, lenders and sureties; and Exit, substantial exit or restructuring of non-core businesses to reduce net debt. 		No change in likelihood or impact	(L)

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
- High – risk threatens the viability of the Group or there is a reasonable likelihood of danger to people or material reputational damage

Likelihood

- Improbable – the risk 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




Risk appetite



- (H) High – the Company has a greater risk appetite where there is a clear opportunity for a greater than normal reward
- (M) Medium – the Company has some appetite for risk and balances its mitigation efforts with its view of the potential rewards of an opportunity
- (L) Low – the Company has a very low appetite for risk that is likely to have adverse consequences an aims to eliminate, or substantially reduce, such risks

Strategic Report

Principal risks and uncertainties (continued)

Principal risks and uncertainties continued

Principal risk	Potential impact	Mitigating actions	Impact/Likelihood	Change in Impact/Likelihood	Board risk appetite
<p>4 Market sector performance</p> <p>A general market or sector downturn may materially and adversely affect the Group's ability to secure work.</p> <p>The Group's performance is affected by macroeconomic factors which affect UK business in general and/or the markets in which the Group operates.</p> <p>COVID-19 Impact: high.</p> <p>COVID-19 has resulted in high levels of macroeconomic sector uncertainty and volatility and has resulted in the UK entering a recession. This has, in turn, adversely affected the Group's financial performance.</p>	<ul style="list-style-type: none"> • A failure of one or more of the Group's businesses; • Increased competition for new work; and • A decrease in stakeholder confidence in the Group. 	<ul style="list-style-type: none"> • Evaluate markets, including the impact of macroeconomic factors and the associated market risk of specific events (for example, Brexit); • Review the Group's pipeline of future work to identify market trends and plan accordingly; and • Maintain a broad sector focus to mitigate against the decline of a particular sector. 		No change in impact or likelihood.	(M)
<p>5 Contract management</p> <p>Failure to manage contracts effectively at each stage of a project's lifecycle.</p> <p>The Group has a number of large and complex contracts in progress at any one time.</p> <p>Failure to manage the risks associated with these contracts could materially and adversely affect the Group's financial performance.</p> <p>COVID-19 Impact: medium.</p> <p>COVID-19 has resulted in certain projects being delayed or suspended and the Group incurring additional costs as a result.</p>	<ul style="list-style-type: none"> • A failure to manage project delivery and WIP and, ultimately, to meet the Group's financial targets; • The Group incurring losses on individual contracts; and • The Group failing to win new work. 	<ul style="list-style-type: none"> • Adhere to the Group's contract risk governance framework; • Identify early warnings of under-performing contracts; and • Timely and accurate reporting of contract performance. 		No change in impact or likelihood.	(L)
<p>6 People</p> <p>Failure to retain key employees and identify future leaders.</p> <p>The Group's employees are critical to its current performance. The Group needs to identify, retain and motivate people with the right skills, experience and behaviours and to identify tomorrow's leaders.</p> <p>COVID-19 Impact: high.</p> <p>The Group has implemented a number of measures relating to its employees, including temporary pay reductions, furlough and requiring more agile working practices (including working from home).</p>	<ul style="list-style-type: none"> • An adverse effect on the delivery of the Group's purpose and strategy; • A lack of operational leadership, potentially leading to poor project performance; and • An erosion of the Group's employer brand. 	<ul style="list-style-type: none"> • Focus on skills development and retention plans for the talent pipeline; • Create an effective, inclusive work environment, through our Performance Excellence culture; and • Clear and effective communication with the workforce. 		No change in impact or likelihood.	(M)

Principal risk	Potential impact	Mitigating actions	Impact/Likelihood	Change in Impact/Likelihood	Board risk appetite
<p>7 Supply chain</p> <p>Failure to maintain effective working relationships with the supply chain; following COVID-19, supply chain insolvencies.</p> <p>The Group relies on its supply chain for the delivery of its projects. Maintaining close and effective working relationships with the supply chain is therefore a priority for the Group. Following COVID-19, the risk of insolvencies in the supply chain has increased.</p> <p>COVID-19 Impact: medium.</p> <p>The Group has worked closely with its supply chain to ensure that projects can be delivered. There has been an increase in the number of insolvencies within the supply chain as a result of COVID-19.</p>	<ul style="list-style-type: none"> Unavailability of appropriate resources, impacting on project delivery and cost; Use of suppliers from outside the preferred supplier list increases cost and decreases quality; and Poor relationships lead to lack of confidence in the Group and adverse publicity. 	<ul style="list-style-type: none"> Develop long-term relationships with critical subcontractors; Continue to seek to reduce supply chain payment terms; and Review the supply chain to ensure alternative delivery mechanisms are available and appropriate contingencies are in place. 		Increase in impact and likelihood	(M)
<p>8 Strategy</p> <p>The Group fails to deliver its strategy.</p> <p>The delivery of the Group's strategy is of fundamental importance to its future performance.</p> <p>COVID-19 Impact: low.</p> <p>The Group believes that COVID-19 has affected its short-term performance, rather than the longer-term delivery of its strategy.</p>	<ul style="list-style-type: none"> An adverse impact on the Group's net debt and liquidity; Failure to secure positions on national and regional frameworks; and Failure to meet stakeholders' expectations may lead to a decline in confidence in the Group. 	<ul style="list-style-type: none"> Delivery of our Performance Excellence culture; Continued focus on cash management; and Effective communication with stakeholders. 		New risk	(L)

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 plans under review, in the 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.

COVID-19

The COVID-19 pandemic has had, and may continue to have, a material and adverse effect on the Group's results of operations and a number of the Group's stakeholders, including its employees, clients and supply chain. The extent of the effect of COVID-19 on the Group and its stakeholders depends on a range of factors, including its effect on the wider economy in general, measures taken by Government in response to it, including the proposed increase in UK infrastructure investment, and the effects of any re-occurrence of the pandemic.

As the UK continues its exit from lockdown, Government restrictions and requirements are closely monitored so as to ensure continued compliance. Particular areas of focus include:

- Compliance with the Group's site operating procedures;
- Ensuring the continued supply of materials and availability of the supply chain, wherever possible; and
- Supporting the Group's workforce to continue to operate as effectively as possible in the circumstances.

Emerging risks

The Group has identified the following as principal, emerging risks:

- The continued impact of COVID-19 on the Group's sites and operations;
- The UK's recession, following COVID-19; and
- The operational, financial and commercial effects of climate change disruption on the Group.

Focused on fixing the balance sheet

“

Kier has continued to deliver critical national infrastructure projects and provide services across a range of sectors with, on average, c.80% of the Group's sites remaining open during the COVID-19 pandemic.

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Introduction

As reported in the announcement of 5 March 2020, the results for the first six months of the financial year showed that good progress against the strategic objectives had been made. During this period, the results reflected the decisive cost actions that the Group had taken. The Group was also making steady progress on its objective of reducing net debt, with average month-end net debt for the period to 31 December 2019 being £395m, a reduction of £27m as compared to the prior year comparative period.

However, during the fourth quarter of the financial year, the Group's operations were adversely affected by COVID-19. Despite the majority of the Group's sites remaining open throughout the fourth quarter, the pandemic had a significant adverse impact on the Group. A period of site closures, reduced productivity through the implementation of social distancing measures and delays to project starts impacted volumes. In addition, the Group has incurred a number of charges driven by the COVID-19 outbreak.

Decisive management actions in the fourth quarter mitigated the impact of the pandemic, protecting the Group's liquidity and profitability. The Group has continued to deliver critical national infrastructure projects and provide services across a range of sectors with, on average, c.80% of the Group's sites remaining open during the period. However, overall COVID-19 had a material impact on the Group's operations and on the results for the year ended 30 June 2020.

Throughout the period, the Group has incurred restructuring charges to help simplify the Group, remove layers of management, and significantly reduce central overheads. New management in Living and Construction have undertaken regional strategic reviews, including the closure of offices, sectors and charges relating to the recoverability of assets following implementation of the new strategy and the challenging COVID-impacted market conditions.

The Group remains well-placed to benefit from recent Government announcements which highlight the UK's infrastructure being at the centre of the Government's economic growth strategy, and the order book remains strong at £7.9bn, which is flat against the prior year.

Summary of financial performance

	Adjusted results – continuing operations ¹			Reported results – continuing operations		
	Adjusted	Adjusted	% change	Reported	Reported	% change
	30 June 20	30 June 19		30 June 20	30 June 19	
Revenue (£m) – Total	3,475.6	4,106.0	(15.4)	3,475.6	4,106.0	(15.4)
Revenue (£m) – Excluding JVs	3,422.5	3,951.1	(13.4)	3,422.5	3,951.1	(13.4)
Profit/(loss) from operations (£m) ²	41.4	85.7	(51.7)	(195.6)	(203.5)	(3.9)
Profit/(loss) before tax (£m)	16.9	61.4	(72.5)	(225.3)	(229.5)	(1.8)
Earnings/(loss) per share (p)	15.3	30.9	(50.5)	(106.2)	(146.9)	(27.7)
Net debt (£m) – at 30 Jun 2020	(310.3)	(167.2)				
Net debt (£m) – average month-end	(436.0)	(422.0)				
Order book (£bn)	7.9	7.9				

¹ Reference to 'Adjusted' excludes adjusting items, see note 5.

² Adjusted profit from operations of £41.4m includes the impact of direct COVID-19 related costs of £35.3m and additional holiday pay accrual of £10m.

³ Comparative information has been re-presented to classify the Living division as a discontinued operation, see note 23. This has had no impact on the statutory reported results for the year ended 30 June 2019.

Revenue from continuing operations

	2020 £m
Revenue for the year ended 30 June 2019	4,106.0
Construction	(129.6)
Infrastructure	(99.2)
Strategic exits	(81.3)
Property	(60.4)
Other volume impacts including COVID-19	(259.9)
Revenue for the year ended 30 June 2020	3,475.6

The Group traded in line with expectations for the nine-month period to 31 March 2020. The above table shows our estimate of the impact of COVID-19 on our businesses performance and our estimate of the challenging market conditions of the first nine months.

The outbreak of COVID-19 substantially impacted revenue in the last quarter of FY20. Lower volumes were noted due to site closures, lower productivity through the adoption of social distancing measures and a delay in site starts and transaction completions. The impact on our Scottish sites was also substantial, as Scotland enforced a more stringent lockdown compared to other parts of the UK in which the Group operates. In addition, revenues were behind prior year in Construction and Infrastructure, which was in line with management expectations, and driven by the challenging market conditions.

As part of the Group's strategic review, a decision was made to exit various contracts and refrain from obtaining new work in our non-core segment, reducing revenue generation accordingly. This includes the wind-down of our Environmental Services business and the completion of a number of Facilities Management contracts.

Adjusted operating profit from continuing operations

	2020 £m
Operating profit for the year ended 30 June 2019	85.7
Volume/price/mix changes (includes COVID-19 impact)	(33.4)
Reduction in Property profitability including impairments	(17.3)
Cost inflation	(2.4)
Management cost-saving actions	64.8
COVID-19 direct costs	(35.3)
Holiday pay accrual	(10.0)
Impact of IFRS 16 adoption	9.3
Benefit from IFRS 15 adoption unwind	(20.0)
Operating profit for the year ended 30 June 2020	41.4

Strategic Report

Financial review (continued)

The reduction in non COVID-19-related revenue noted above coupled with challenging market conditions and the mix of work in certain divisions impacted profitability. The Group has recognised reduced profitability in its Property division, driven by the reduced capital investment, reduced returns and impairments, in line with the strategy outlined by the Board.

Offsetting the reduction in profitability driven by lower volumes, the management actions taken to reduce the Group's cost base have resulted in a material reduction in overhead costs and improved profitability by c.£65m including £10m benefit from exiting loss-making contracts. The anticipated full-year run rate savings generated from these initiatives are expected to be at least £100m in FY21.

Unsurprisingly, the impact of COVID-19 has impacted profitability through a reduction in volumes and the incurring of additional direct costs. The Group has also accounted for a one-off holiday accrual driven by the pandemic, which management expects to unwind in future periods.

The Group's operating profit also benefited from the adoption of IFRS 16, the new accounting standard for leases which was adopted in the year. This standard replaces operating lease payments with depreciation and amortisation of capitalised assets. The second year of the application of IFRS 15 has resulted in a £20m profit reduction.

Assets held for sale and discontinued operations

Following the Group's 2019 strategic review, the Board concluded that Kier Living is not compatible with the Group's working capital objectives and that it would seek to sell the business. Accordingly, the assets and liabilities of Kier Living were classified as held for sale, with assets of £191.9m and liabilities of £81.9m at 30 June 2020. These assets have been written down to their fair value less costs to sale and a non-cash fair value charge of £51.6m has been recorded in the year. In addition, restructuring charges and exit costs totalling £37.0m net of tax have been incurred in respect of the exit of various regions and sectors.

The results for Kier Living for the period are classified as discontinued, including restatement of the prior period comparatives. Kier Living's adjusted loss after tax for the period was £12.8m (FY19: £36.2m profit) as the business was adversely impacted by site closures in the fourth quarter of the financial year driven by COVID-19 restrictions.

Earnings per share

Earnings per share (EPS), before adjusting items, from continuing operations were earnings of 15.3p (FY19: 30.9p earnings). EPS, after adjusting items, from continuing operations were losses of 106.2p (FY19: 146.9p losses).

Alternative performance measures

During the year, the Directors have reviewed the previous accounting presentation for disclosing certain items as 'exceptional' on the income statement. The Directors have considered the requirements of applicable accounting standards, along with additional guidance relating to alternative performance measures ('APM'), and have concluded that the Group will move away from using its previous disclosure on the face of the Group's income statement. The Directors consider that it would be more appropriate to present an income statement that shows the Group's statutory results only.

The Directors, however, still believe it is appropriate to disclose those items which are one-off, material or non-recurring in size or nature. The Group will be disclosing as supplementary information an 'adjusted profit' APM. The Directors consider doing so clarifies the presentation of the financial statements and better reflects the internal management reporting and is therefore consistent with the requirements of IFRS 8.

A reconciliation of reported to adjusted operating profit is provided below:

	Operating (loss)/ profit		(Loss)/profit before tax	
	2020 £m	2019 £m	2020 £m	2019 £m
Reported loss from continuing operations	(195.6)	(203.5)	(225.3)	(229.5)
Amortisation of acquired intangible assets	23.7	24.8	23.7	24.8
Costs associated with previous acquisitions	5.0	29.3	5.0	29.3
Restructuring and related charges	156.1	56.1	156.1	56.1
Preparation for business divestment or closure	33.6	120.4	33.6	120.4
Exceptional contract losses	–	49.9	–	49.9
Other	18.6	8.7	23.8	10.4
Adjusted profit from continuing operations	41.4	85.7	16.9	61.4

Additional information regarding the items the Directors deem to require adjusting is noted below:

- Amortisation of acquired intangible assets £23.7m (FY19: £24.8m):
Comprises the amortisation of acquired contract rights primarily relating to the acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017. These charges have no future cash impact.
- Costs associated with previous acquisitions £5.0m (FY19: £29.3m):
The Group has recognised a £5.0m charge in the period in respect of the McNicholas acquisition and its subsequent integration. These non-recurring costs have now been completed. The charges have resulted in a cash outflow in the period of £5.0m.
- Restructuring and related charges £156.1m (FY19: £56.1m):
The Group has incurred restructuring costs in the period totalling £156.1m. This includes £29.5m in respect of employee exit costs associated with cost-saving programmes and from strategic

decisions taken to reduce headcount. Costs of £61.5m have been incurred following the decision to restructure the Southern Build UK business, including a £28.3m charge relating to the recoverability of assets following implementation of the new strategy and the challenging COVID-impacted market conditions. Fees of £31.7m have been incurred in undertaking and implementing the conclusions of the strategic review announced in June 2019 and the cost reductions described above. £22.2m of property-related impairment charges have been recognised during the period and £2.4m of previous impairment charges have been released in relation to the relocation and closure of corporate offices. £11.1m of one-off costs have been incurred in preparation for outsourcing Fleet and IT activities. Of this total restructuring costs of £156.1m, £22.9m relates to impairments of non-current assets, £38.4m is held within accruals and provisions, £5.0m is a reduction of receivables, £31.3m a reduction in inventories and the remainder resulted in a cash outflow in the period.

- Costs relating to the preparation of businesses for sale £33.6m (FY19: £120.4m):
Fair value adjustments of £14.8m have been made to properties in the Retail and Student sectors following the strategic decision to exit these markets. Costs of £3.8m in relation to contracts which the Group have exited (or will be exited in the near future) have been incurred in the FM and DABS businesses. In addition, costs of £7.8m have been incurred in relation to the disposal of parts of the business, primarily Living. The remaining charges relate to other business closure and sales costs. Of this total, £11.5m has resulted in a cash outflow in the period, £13.4m relates to inventory write downs, £4.8m relates to the impairment of non-current assets with the remaining £4.0m being held within accruals.
- Other costs £18.6m (FY19: £8.7m):
Other costs include £7.6m in respect of legal-related items, including fire compliance and cladding claims that have been incurred, and the remaining balance is in respect of rebates and other charges following a review of the carrying value of central balances. Of the £18.6m, £6.7m has been written off against debtors, £9.7m is held in accruals and provisions and the remainder is cash.

In addition to the £237.0m of adjusted charges incurred from continuing operations, £88.6m of charges, net of tax, have been incurred from discontinued operations. This includes a fair value impairment of the net assets held for sale of the Kier Living division of £51.6m with the remainder relating to the exit of various regions.

Finance charges

Bank interest has remained stable at £24.9m (FY19: £24.7m). Finance costs now includes £7.2m of costs relating to interest and finance charges for lease liabilities as a result of the implementation of IFRS 16. Under the previous GAAP, finance lease charges were significantly lower (FY19: £0.2m).

Segmental reporting

From 1 July 2019, the Group changed its reporting format to focus on two market positions of 'Construction' and 'Infrastructure Services'. This is the basis on which the Group reports its primary segmental information for the year ended 30 June 2020. The Group is simplifying its portfolio by selling or substantially exiting the following activities which are deemed to be non-core and are now presented as 'Other': Property, Facilities Management and Environmental Services. 'Corporate' includes unrecovered overheads and the charge for defined benefit pension schemes.

Balance sheet

Net assets

The Group had net assets of £240.8m at 30 June 2020 (FY19: £519.6m).

Goodwill

The Group held intangible assets of £720.6m (FY19: £766.7m), of which goodwill represented £536.7m (FY19: £536.7m). The Group completed its review of goodwill as at 30 June 2020, assuming a pre-tax discount rate derived from a weighted average cost of capital of 9.72%, and concluded that no impairment was required.

The Infrastructure Services CGU comprises £516.3m of the total goodwill balance. Whilst no impairment is noted and management believe the discounted cash flows applied is underpinned by the orderbook and current pipeline prospects, this CGU is sensitive to changes in key assumptions. The key assumptions in the value in use calculations are the forecast revenues and operating margins, the discount rates applied to future cash flows and the terminal growth rate assumptions applied.

Deferred tax asset

Given the reported losses recorded over the last two financial years, the Group has a deferred tax asset of £111.0m recognised at 30 June 2020 (FY19: £47.7m). Based on the Group's forecasts, it is considered probable that this will be utilised over a reasonable timeframe.

	2020 £m
Net debt as at 30 June 2019	(167)
Adjusted EBITDA before COVID-19	126
IFRS 16	-
Working capital	(55)
Net capex	(8)
JV dividends less profits	19
Other free cash flow items	9
Net interest and tax	(25)
Free cash flow	66
Net COVID-19 impact	(74)
Adjusting items	(93)
Sales proceeds	14
Discontinued operations	(42)
Other	(14)
Net debt as at 30 June 2020	(310)

Strategic Report

Financial review (continued)

Working capital

During the year there was a total £44.7m reduction in the utilisation of the Kier Early Payment Scheme (KEPS) of which £25m was related to the discontinued operation Kier Living. The Group is actively reducing the KEPS scheme, paying the supply chain more quickly and not applying as much working capital management around reporting periods as has been seen in prior periods. We anticipate that the reshaped Group, following the implementation of the strategic actions, will continue to improve the working capital profile in the medium term.

Government support

As of 30 June 2020, there was total tax deferred of £79.8m. This comprises £25.1m of VAT deferred in accordance with HMRC guidance and payable 31 March 2021. The balance of £54.7m is subject to a Time To Pay agreement with HMRC with the amount being cleared by the end of the 2021 financial year.

Contract assets and liabilities

Contract assets represents the Group's right to consideration in exchange for works which have already been performed. Similarly, a contract liability is recognised when a customer pays consideration before work is performed. As at 30 June 2020, current contract assets totalled £249.7m, down from £466.0m as at 30 June 2019. The reduction in volume in Q4 FY20, driven by the COVID-19 pandemic, reduced the Group's ability to operate in certain divisions and geographical locations because of site closures, delays and social distancing measures. This reduced volume in Q4 in turn reduced the contract asset and contract liability balances as at 30 June 2020.

Retirement benefits obligation

Kier operates a number of defined benefit pension schemes. At 30 June 2020, the reported surplus, which is the difference between the aggregate value of the schemes' assets and the present value of their future liabilities, was £38.8m (FY19: £19.5m surplus), before accounting for deferred tax.

In agreeing the triennial valuation of the Group's main schemes, and due to the impact of COVID-19, the Group has agreed a revised deficit recovery programme whereby £26m will become payable by 5 December 2020, and deficit repayments of £9m per calendar year will be made from July 2021, until the end of the recovery plan.

Accounting policies

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU ('IFRS'). One new accounting standard was adopted by Kier during the period, namely, IFRS 16 ('Leases'). Other than this standard, there have been no significant changes to the Group's accounting policies during the period.

The main impact of IFRS 16 has been to move the Group's larger, longer-term operating leases, primarily in respect of property, onto the balance sheet, with a consequential increase in non-current assets and lease obligations. Operating lease charges in respect of these leases, previously included in administrative expenses, have been replaced by depreciation and interest costs. The cash flow associated with these leases has not changed.

The Group has transitioned to IFRS 16 using the modified retrospective approach whereby the cumulative impact of applying the standard is accounted for as an adjustment to equity at the start of the accounting period in which it is first applied (i.e. 1 July 2019).

IFRS 16 has introduced a new category of non-current assets for 'right-of-use assets' associated with leases. At the date of initial application of IFRS 16, the carrying value of the Group's right-of-use assets was less than the additional lease borrowings that came on to the balance sheet.

Additional lease liabilities of £193.7m have been brought onto the balance sheet along with associated right-of-use assets of £176.3m (including £4.9m of assets previously classified as property, plant and equipment held under finance leases).

In addition, prepaid rental amounts of £2.3m, accruals of £0.2m and onerous lease provisions of £4.4m have been removed from the balance sheet and a deferred tax asset of £3.4m was recognised in respect of the transitional adjustments. The net impact of these adjustments is a debit to opening reserves at 1 July 2019 of £16.6m.

In respect of the income statement for the year ended 30 June 2020, depreciation and interest charges under IFRS 16 were £2.2m less than the operating lease expenses that would have been charged under the previous leases accounting standard. Due to the differing methods of calculation, the impairment of the right-of-use assets under IFRS 16 was £1.1m less than the onerous lease provision that would have been calculated under the previous accounting standards. Therefore, had IFRS 16 not been introduced, total profit before tax would have been £3.3m lower than the reported figure for the year.

Previously, Kier has not included finance lease liabilities within its measure of net debt, due to their asset-backed nature. Therefore, whilst IFRS 16 has brought additional lease liabilities onto the balance sheet, the standard has had no effect on the Group's net debt measure, which has been calculated consistently with previous reporting periods.

Treasury facilities

Bank finance

The Group has committed debt facilities of £891.9m with a further £20m of uncommitted overdrafts. Bank debt will mature in July 2022 and US private placement notes mature between 2020 and 2024. The Group repaid debt of £30m during the period.

Supply chain finance

The Group offers its supply chain in the Construction and the Residential businesses the opportunity to participate in KEPS. The balance owed on this facility is included in trade creditors. The balance at 30 June 2020 was £125.5m (FY19: £170.2m).

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 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 the Group's operations.

The Group has a limited number of international operations in different currencies. Currency exposure to international assets is hedged through intercompany 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.

Going concern

The Board is required to consider the Group'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.

The Group was trading in line with the Board's expectations through the financial year up to 31 March 2020 and had made good progress against the strategic objectives announced in June 2019. To support the delivery of these strategic objectives, the Group has made a number of structural changes (including a material reduction in the Group's headcount), as summarised in this announcement. The Group expects that the reduction in the Group's headcount and the delivery of the other strategic objectives will enable it to realise annual run rate savings of at least £100m by 30 June 2021, as compared to the 2018 financial year.

In the fourth quarter of the financial year, however, the 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 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;
- Agreed revised financial covenants under its principal 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
- 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 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 include 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 cash flows, using the financial impact of the initial outbreak as the basis of the assessment, was also considered.

The 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 macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability.

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 have available liquidity headroom under its existing finance facilities and operate within the revised financial covenants over the going concern period.

As a result, the Board is satisfied that the Group 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 Group's 2020 financial statements.

Viability statement

The UK Corporate Governance Code requires the Board to explain how it has assessed the prospects of the Group, over what period it has done so and why it considers that period to be appropriate.

Assessment period

Consistent with the practice of previous years, the Board has assessed the prospects of the Group over a period of three years from 30 June 2020, taking account of its current position and the potential impact of the Group's principal risks and uncertainties (the PRUs) which is set out in this Annual Report and certain other risks referred to below. The Board has identified a three-year period as being a period over which it believes it is able to forecast the Group's performance with reasonable certainty, principally because:

- The Group's internal forecasting covers a three-year period;
- The tender process and delivery programme for a number of the Group's projects can, together, take a period of up to approximately three years; and
- The visibility of the Group's secured work and bidding opportunities can reasonably be assessed over a three-year period.

Assessment process

The work required to support the viability statement was undertaken by management, with the assistance of external advisers with respect to certain elements of the work (including stress-testing management's forecasts).

The following is a summary of the key elements of the assessment process:

- The model used as the basis of the assessment included a number of key assumptions (please see 'Key assumptions' below) and was subject to stress-testing (please see 'Stress-testing' below);
- The process considered the Group's current performance and future prospects, strategy, the PRUs and the mitigation of the PRUs;
- The process included a review of certain other risks relating to the Group, including macroeconomic and political risks affecting the UK economy (for example, Brexit), and risks relating to the Group's trading, the Group's pensions, the availability of the Group's finance facilities, systemic margin erosion, the execution of the Group's strategy, the supply chain and certain project-specific risks; and
- The process assessed the continuing impact of COVID-19, including the impact of a second wave within the assessment period.

Key assumptions

The key assumptions within the model used to support the viability statement include:

- › The Living business is not sold in the review period;
- › The Group maintains its position as one of the leading providers of construction and infrastructure services to Government and regulated entities;
- › No payment of dividends over the review period;
- › The Group's supply chain finance facility is retained at the same level as at 30 June 2020;
- › The Group operates within its financial covenants under its principal debt facilities during the review period;
- › The Group's revolving credit facility is refinanced on substantially the same terms (noting that it is currently scheduled to expire in June 2022);
- › The Group's Schuldschein loans and USPP notes are repaid on their respective maturity dates during the review period; and
- › The Group makes payments to the pension schemes in line with the revised deficit recovery plan.

Stress-testing

Management assessed the financial impact of a number of severe but plausible downside scenarios (both individually and in combination) by overlaying them against the three-year business plan. These scenarios included:

- › An adverse impact on the Group's forecasts, including a lower than forecast volume, an erosion of forecast margins and a reduction in the win rate of any revenue which is to be obtained;
- › A second wave of COVID-19, resulting in a similar national lockdown to the one applied with respect to the initial outbreak;
- › A certain level of loss-making contracts having an impact on the Group's reported profit and cash over the review period;
- › The removal of the Group's supply chain finance facility, which is uncommitted; and
- › The application of certain, additional macroeconomic factors which may impact the Group, including Brexit.

COVID-19

Significant judgement was required to assess the impact of a second wave of COVID-19 on the three-year plan. The key assumptions used in this assessment were driven by the impact of the initial outbreak on the Group, the timing of a second wave, and the period of lockdown.

The agreements with the lenders and the pension trustees, as summarised above under 'Going concern', in addition to the other measures which have been taken during the year, mean that, if there was a second wave of COVID-19, the Group would be expected to continue to have available liquidity headroom under its existing finance facilities.

Viability statement

The Board therefore has a reasonable expectation that the Group has adequate resources to continue to operate and to meet its liabilities as they fall due across the three-year review period.


SIMON KESTERTON
Chief Financial Officer

25 September 2020

This Strategic Report on pages 1 to 71 (inclusive) was approved by the Board and signed on its behalf by:

ANDREW DAVIES
Chief Executive

SIMON KESTERTON
Chief Financial Officer

25 September 2020

“
During the year, the Board has overseen the implementation of a revised governance structure for the Group.
”

Dear shareholder

I am pleased to present, on behalf of the Board, my first corporate governance report as Chairman. In this part of the Annual Report, we describe governance at Kier, the principal activities of the Board and its committees during the 2020 financial year and how we have applied the principles of, and complied with the provisions of, the UK Corporate Governance Code (2018 edition) (the Code).

During the year, the Board has overseen the implementation of a revised governance structure for the Group, which is designed to underpin both its culture and the delivery of its strategic objectives and, ultimately, support its longer-term performance. Further details are set out on page 81.

Board composition

There have been a number of changes in the composition of the Board over the year. Simon Kesterton was appointed as the Chief Financial Officer on 26 September 2019 and, on 30 March 2020, Heather Rabbatts and Clive Watson were appointed as Non-Executive Directors and, respectively, as the Chair of the Remuneration Committee and the Risk Management and Audit Committee (the RMaC).

In May 2020, we announced that Kirsty Bashforth would not be seeking re-election by shareholders at the forthcoming Annual General Meeting (the AGM). I would like to thank Kirsty for her contribution in six years on the Board and, in particular, as the

Chair of the Safety, Health and Environment Committee (the SHECo) since 2018. In September 2020, we announced that Alison Atkinson will be joining the Board as a Non-Executive Director and as the Chair of the SHECo in December 2020. I look forward to working with Alison. As in previous years, each of the Directors will stand for election or re-election by shareholders at the AGM, in accordance with the Code. Further information on matters relating to the composition of the Board can be found in the Nomination Committee report on pages 87 to 89 (inclusive).

Our culture

The Board recognises its role in setting the Group's purpose, values and strategy.

In January 2020, we launched the Operating Framework (the OF), for use and implementation by all employees. The OF sets out the Group's revised governance structure, summarises the core business processes which apply throughout the Group and contains the Group's delegated authorities. In addition, it sets out the Group's purpose and its refreshed values – trusted, collaborative and focused. Further details of the Group's purpose, values and strategy are set out on page 77.

At the same time, the Board oversaw a review of the Group's core policies, so as to ensure that they are aligned with its purpose, values and strategy, and also launched a revised Code of Conduct, so as to ensure that the OF is supported by the desired behaviours. In June 2020, we held a 'values week' to embed the refreshed values throughout the workforce. In addition, the visits which members of the Board were able to undertake to a number of sites before COVID-19 provided an insight into the Group's culture and enabled them to understand the views of employees on matters of significance to them.

Engaging with our stakeholders

Consideration of the Group's interaction and engagement with its key stakeholders, including employees, shareholders, Government, the supply-chain, lenders, the environment and the communities in which it operates, continues to be an integral part of the Board's discussions and decision-making.

The Board recognised that, during COVID-19, it was particularly important for the Group to continue to engage effectively with its key stakeholders. For example, the Chief Executive led regular calls with employees so as to update them on the measures being taken to mitigate against the operational effects of the pandemic, members of the Board held regular discussions with representatives of the Government about the progress of our projects and we engaged with our lender group to agree a number of relaxations to our principal finance facilities.

The Board also values an open, transparent and constructive dialogue with shareholders and actively seeks opportunities for engagement with them. For example, as in previous years, meetings were held with a range of institutional investors following the results announcements in September 2019 and March 2020 and also with retail shareholders at the AGM in November 2019.

An overview of the Group's engagement with its key stakeholders is set out on page 79.

Risk and internal controls

The Board recognises that it is required to establish procedures to manage risk, oversee the Group's internal control framework and determine the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives.


During the year, the Board has overseen the establishment of the Group Risk Committee, which supports the RMaC to oversee the management of the Group's internal control framework. At its meeting held in August 2020, the Board agreed the list of

emerging and principal risks faced by the Group and its risk appetite with respect to such risks. Further information is set out under 'Principal risks and uncertainties' on pages 60 to 63 (inclusive).

Remuneration

The Board acknowledges the significant vote against the Directors' Remuneration Report at the 2019 AGM. Our new Remuneration Committee Chair, Heather Rabbatts, has engaged extensively with shareholders to understand their concerns and the Committee has taken into account the feedback from this engagement when setting the Executive Directors' remuneration for the 2021 financial year. Please see the Directors' Remuneration Report on pages 101 to 121 (inclusive) for further details.

A new remuneration policy will be put to shareholders for approval at the AGM on 17 December 2020. The new policy is designed to support the delivery of the Group's strategy and promote its long-term sustainable success; it therefore aims to ensure that we are able to attract and retain talented individuals with the requisite skills and experience to lead the Group. The new remuneration policy is set out on pages 105 to 112 (inclusive).


MATTHEW LESTER
Chairman

25 September 2020

Governance in action

A summary of the steps taken by the Board in the 2020 financial year to support the delivery of the Group's strategic actions is as follows:

Strategic action	The Board's governance role	What we did in 2020	Outcomes of our actions
Simplify and focus	To review the Group's portfolio of businesses and its operating model	<ul style="list-style-type: none"> Oversaw the continued acceleration of the Group's cost reduction programme Oversaw the introduction of the Operating Framework Oversaw the sale process for Living, the reduction of capital deployed in the Property business and the steps taken to exit the Environmental business 	<ul style="list-style-type: none"> Annual run rate savings of c. £100m forecast for the 2021 financial year Provided a clarity of focus for all those working for the Group Simplified the Group, introduced a more disciplined approach to capital allocation across the Group and facilitated a greater focus on the Group's core businesses
Improve cash generation	To oversee the Group's management of working capital	<ul style="list-style-type: none"> Oversaw the introduction of Performance Excellence, with an emphasis on cash generation Oversaw the focus on reducing the number of days taken to pay the supply-chain The Executive Directors led regular calls with business management which focused on cash collection 	<ul style="list-style-type: none"> Introduced a more consistent approach to working capital management in the Group Improvement in the Group's statistics under The Reporting on Payment Practices etc. Regulations 2017 Re-affirmed the principle of business unit responsibility for the collection of cash by the Group
Strengthen balance sheet	To identify ways of reducing the Group's net debt	<ul style="list-style-type: none"> Continued to engage with the Group's lenders Oversaw the careful allocation of capital to the Property business No dividends paid in the 2020 financial year 	<ul style="list-style-type: none"> The Group agreed a number of relaxations to its principal financial facilities Facilitated a more balanced approach to investment by the business Enabled the Group to preserve the cash that would have been distributed

The UK Corporate Governance Code

Compliance with the Provisions of the Code

The Company is subject to the UK Corporate Governance Code (July 2018 edition) (the Code). A full version of the Code can be found on the Financial Reporting Council's website: www.frc.org.uk.

Application of the Principles of the Code

During the 2020 financial year, the Company applied the Principles of the Code. The table below provides references to those parts of this Annual Report that explain how we applied the Principles:

1. Board leadership and company purpose	Where to find further information
Principle A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Strategic Report on pages 1 to 71 (inclusive). 'Board leadership and company purpose' on pages 77 to 79 (inclusive). 'Division of responsibilities' on pages 80 to 82 (inclusive). Directors' Remuneration Report on pages 101 to 121 (inclusive).
Principle B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Strategic Report pages on pages 1 to 71 (inclusive). 'Board leadership and company purpose' on pages 77 to 79 (inclusive). 'Division of responsibilities' on pages 80 to 82 (inclusive). Directors' Remuneration Report on pages 101 to 121 (inclusive).
Principle C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	'Key performance indicators' on pages 30 and 31. 'Sustainability' on pages 42 to 54 (inclusive). 'Non-financial information statement' on page 55. 'Section 172 statement' on pages 56 and 57. 'Risk management framework' on pages 58 and 59. 'Principal risks and uncertainties' on pages 60 to 63 (inclusive). Risk Management and Audit Committee report on pages 92 to 98 (inclusive).
Principle D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	'Sustainability' on pages 48 to 54 (inclusive). 'Non-financial information statement' on page 55. 'Section 172 statement' on pages 56 and 57. 'Engagement with stakeholders' on page 79.
Principle E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	'Sustainability' on pages 48 to 50 (inclusive). 'Non-financial information statement' on page 55. 'Section 172 statement' on pages 56 and 57. 'Board leadership and company purpose' on pages 77 to 79 (inclusive). Directors' Remuneration Report on pages 101 to 121 (inclusive).
2. Division of responsibilities	Where to find further information
Principle F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.	'Board leadership and company purpose' on pages 77 to 79 (inclusive). 'Division of responsibilities' on pages 80 to 82 (inclusive).
Principle G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.	'Division of responsibilities' on pages 80 to 82 (inclusive). 'Board of Directors' on pages 84 and 85.
Principle H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.	'Board leadership and company purpose' on pages 77 to 79 (inclusive). 'Division of responsibilities' on pages 80 to 82 (inclusive). Risk Management and Audit Committee report on pages 92 to 98 (inclusive).
Principle I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.	'Board leadership and company purpose' on pages 77 to 79 (inclusive). 'Division of responsibilities' on pages 80 to 82 (inclusive). 'Audit, risk and internal control' on pages 90 and 91. Risk Management and Audit Committee report on pages 92 to 98 (inclusive). 'Directors' remuneration policy' on pages 105 to 112 (inclusive).

3. Composition, succession and evaluation

Where to find further information

Principle J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

'Composition, succession and evaluation' on pages 83 to 86 (inclusive).
Nomination Committee report on pages 87 to 89 (inclusive).

Principle K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

'Composition, succession and evaluation' on pages 83 to 86 (inclusive).

Principle L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

'Composition, succession and evaluation' on pages 83 to 86 (inclusive).
Nomination Committee report on pages 87 to 89 (inclusive).

4. Audit, risk and internal control

Where to find further information

Principle M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

'Audit, risk and internal control' on pages 90 and 91.
Risk Management and Audit Committee report on pages 92 to 98 (inclusive).

Principle N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Strategic Report on pages 1 to 71 (inclusive).
'Board statements' on page 76.
'Audit, risk and internal control' on pages 90 and 91.
Risk Management and Audit Committee report on pages 92 to 98 (inclusive).
Financial Statements on pages 126 to 220 (inclusive).

Principle O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

'Principal risks and uncertainties' on pages 60 to 63 (inclusive).
'Viability statement' in 'Financial review' on pages 70 and 71.
'Audit, risk and internal control' on pages 90 and 91.
Risk Management and Audit Committee report on pages 92 to 98 (inclusive).
'Notes to the consolidated financial statements' on pages 142 to 213 (inclusive).

5. Remuneration

Where to find further information

Principle P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

Strategic Report on pages 1 to 71 (inclusive).
'Board leadership and company purpose' on pages 77 to 79 (inclusive).
Directors' Remuneration Report on pages 101 to 121 (inclusive).

Principle Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Directors' Remuneration Report on pages 101 to 121 (inclusive).

Principle R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Directors' Remuneration Report on pages 101 to 121 (inclusive).

Corporate Governance Statement

Board statements (continued)

Board statements

The Board is required to make a number of statements on certain governance matters. 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 2020 financial year, the Company complied with the provisions of the Code and applied the principles of the Code.	'Compliance with the Provisions of the Code' on page 74. 'Application of the Principles of the Code' on page 74.
Going concern basis	The Directors are satisfied that the Group has sufficient financial resources to continue to operate for at least 12 months and, therefore, have adopted the going concern basis in preparing the Group's 2020 financial statements.	Strategic Report on pages 1 to 71 (inclusive). 'Principal risks and uncertainties' on pages 60 to 63 (inclusive). 'Going concern' in 'Financial review' on pages 69 and 70. '2020 financial statements – significant issues and other accounting judgements' in the Risk Management and Audit Committee report on page 96.
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 30 June 2023, taking into account the Group's current position and the principal risks and uncertainties set out on pages 60 to 63 (inclusive). Following this assessment, the Directors have a reasonable expectation that the Group will continue to operate and to meet its liabilities as they fall due over this period.	'Principal risks and uncertainties' on pages 60 to 63 (inclusive). 'Viability statement' in 'Financial review' on pages 70 and 71.
Assessment of the principal risks facing the Group	The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Directors also assessed their appetite with respect to these risks and, via the Risk Management and Audit Committee, monitored the systems required to mitigate and manage them.	'Principal risks and uncertainties' on pages 60 to 63 (inclusive). 'Risk assessment and risk appetite' in 'Audit, risk and internal control' on page 90.
Annual review of systems of risk management and internal control	During the 2020 financial year, the Board monitored the Group's systems of risk management and internal control, via the Risk Management and Audit Committee and carried out a review of their effectiveness. The conclusion was that, overall, these systems are effective.	'Systems of risk management and internal control – Effectiveness review' in the Risk Management and Audit Committee report on page 94.
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, performance, business model and strategy.	'2020 Annual Report – fair, balanced and understandable statement' in the Risk Management and Audit Committee report on page 97.
Section 172 Companies Act 2006 statement	Please see 'Section 172 statement' in the Strategic Report on pages 56 and 57.	

Corporate Governance Statement

Board leadership and company purpose

Highlights

- › Appointment of Matthew Lester as Chairman
- › A number of other appointments to the Board during the year
- › Decisive action taken to mitigate the effects of COVID-19

For further information on Kier's strategy and performance, please turn to the Strategic Report on pages 1 to 71 (Inclusive).

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 121 are incorporated by reference into this Corporate Governance Statement.

Purpose, values and strategy etc.

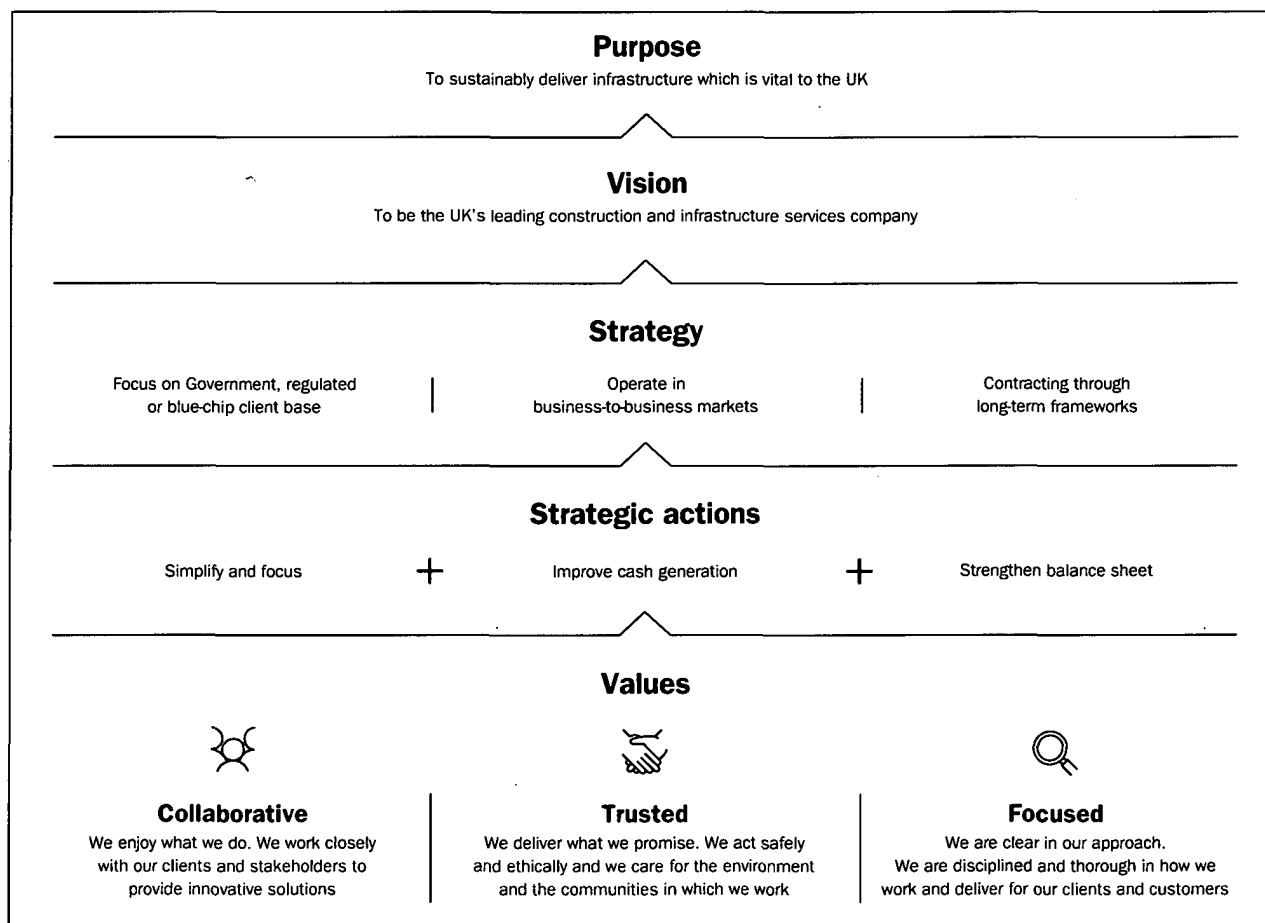
The Company published its Operating Framework in January 2020. The Operating Framework sets out the Group's governance structure, summarises the responsibilities of certain roles and committees and contains the Group's purpose, vision and strategy, the delivery of which will be supported by the Group's revised and refreshed values, which were launched in January 2020.

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 the Executive Directors and provide constructive challenge and support to them.

Biographical details of each of the Directors are set out on pages 84 and 85.



Corporate Governance Statement

Board leadership and company purpose (continued)

The Board's role in the Group's culture

The Board recognises the important role that it plays in assessing and monitoring the Group's culture, so as to ensure that policy, practices and behaviour throughout the Group are aligned with its purpose, values and strategy.

Examples of Board's activities during the year to continue to develop this alignment include:

Activity	Purpose of activity
Oversaw the introduction of the Operating Framework	<ul style="list-style-type: none"> Set out the Group's governance structure Clarify the purpose, values and strategy
Oversaw the introduction of core business processes	<ul style="list-style-type: none"> Introduce consistent practices across the Group Drive an increase in operational efficiencies
Approved the Group's revised values prior to their launch	<ul style="list-style-type: none"> Establish a tone from the top Set the key behaviours required to support the Group's culture
Approved the Group's revised and refreshed Code of Conduct prior to its launch	<ul style="list-style-type: none"> Provide examples of how to comply with the core corporate policies Illustrate the behaviours expected of the Group's employees
Oversaw a review of the Group's core corporate policies	<ul style="list-style-type: none"> Provide clarity of areas of mandatory compliance Underpin the new Code of Conduct
Conducted a number of visible leadership tours to the Group's sites	<ul style="list-style-type: none"> Review the Group's operations and understand the employee voice Assess the Group's safety practices
Invited members of senior management to Board meetings	<ul style="list-style-type: none"> Understand key operational issues relevant to the Group Assess individuals as part of the succession planning process

Whistleblowing helpline

The Group makes available an externally-hosted, confidential whistleblowing helpline. During the year, the Group Compliance function continued to take steps to raise awareness of the facility and the Board reviewed reports which provided details of the issues reported to the helpline and how management had investigated them. No issues which were material in the context of the Group were reported to the helpline or via other means during the year.

Conflicts of interest

The Board has implemented a number of steps to manage conflicts of interest so as to ensure that the influence of third parties does not compromise or override its judgement. These include:

- Requesting details of any actual or potential conflicts of interest prior to a Director's appointment;
- Seeking annual confirmations from each Director that no conflict of interest has arisen during the year; and
- Including a section in the Group's Code of Conduct to remind employees, including members of the Board, to avoid conflicts of interest.

The Board's agreement is required before a Director may accept any additional board commitments, so as to ensure that potential conflicts of interest are identified at an early stage and that the relevant Director will continue to be able to dedicate sufficient time to the Company.

Engagement with the workforce

During the year, the Board discussed the potential methods for it to engage with the Group's workforce, as listed in Code Provision 5.

The Group comprises a number of different types of businesses, with locations throughout the UK, and its workforce comprises individuals with a wide range of skills and experience and different perspectives on issues. The Board agreed, therefore, that it would be difficult for an individual appointed from the workforce or for a single, designated Non-Executive Director to represent the views

of the workforce to the Board. The Board decided that, in light of these factors, each member of the Board would have responsibility for engaging with the workforce and subsequently reporting back to the Board. The Board agreed that the focus of Directors' visible leadership tours would be extended to address wider employee engagement issues.

During the 2020 financial year, there were a significant number of changes to the Board and, in the latter part of the year, the lockdown measures implemented as a result of COVID-19 made it difficult for the Board to engage fully with the workforce. Accordingly, in the 2020 financial year, the Board's engagement with the Group's workforce was not as extensive as had been expected. However, the Board is recommencing the Directors' visible leadership tours as soon as practicable, within the Government's COVID-19 guidelines.

The Board agreed that, in the 2021 financial year, responsibility for engagement with the workforce would remain with the Board, collectively, and that, so as to supplement the work of individual Directors, the Group HR Director would be invited to Board meetings to discuss a range of matters, including engagement with the Group's workforce (for example, following the employee engagement surveys which are scheduled to take place in the 2021 financial year).









Annual general meeting

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 the AGM to answer questions on the work of their committees.

The results of the voting at the 2019 AGM can be viewed online at www.kier.co.uk/investors/shareholder-information/annual-general-meetings.

Engagement with stakeholders

During the year, the Board has undertaken a number of engagement activities with the Group's key stakeholders. The following table provides examples of how the Board engaged with these stakeholders during the year and how it took into account this engagement in its decision-making:

Key stakeholder	Examples of Board engagement in the 2020 financial year	How was the engagement reflected in the Board's or management's decision-making?
 Shareholders	<ul style="list-style-type: none"> Roadshows held with investors following the release of the results announcements in September 2019 and March 2020 The Chair of the Remuneration Committee engaged with shareholders to understand the vote against the Directors' Remuneration Report at the 2019 AGM 	<ul style="list-style-type: none"> Feedback supported the Board's conclusion as to its principal area of focus – namely, to seek a reduction in net debt Facilitated the Remuneration Committee's decision-making in relation to both the new remuneration policy and executive remuneration for the 2021 financial year
 Banks, lenders, sureties and insurers	<ul style="list-style-type: none"> The Chief Financial Officer continued the general engagement which began after the Company's announcements in June 2019 The Chief Financial Officer engaged with the lenders in relation to the relaxations to the Group's principal finance facilities 	<ul style="list-style-type: none"> Enabled the Board to decide on when to approach the Group lenders for relaxations to the finance facilities Engagement confirmed the need to continue to focus on reducing the Group's net debt and increasing its cash flows
 Clients	<ul style="list-style-type: none"> The Chief Executive met a number of the Group's key clients during the year The Board received feedback on key client relationships via Board reports 	<ul style="list-style-type: none"> Feedback taken into account when planning future areas of focus for the Group Informed management's approach to deploying the Group's resources
 Government	<ul style="list-style-type: none"> The Chief Executive engaged regularly with representatives of the Cabinet Office The Board oversaw the Group's engagement with the Cabinet Office via its Strategic Supplier programme 	<ul style="list-style-type: none"> Supported the development of the relationship with one of the Group's key clients Informed management and the Board about the strategic priorities of one of the Group's key clients
 Employees	<ul style="list-style-type: none"> Members of the Board undertook visible leadership tours to the Group's sites The Group HR Director attended Board meetings during the year to brief the Board on key HR matters 	<ul style="list-style-type: none"> Enabled the Board to assess the Group's management of SHE risks Briefings provided the Board with an insight into the Group's culture and the workforce's views
 Joint venture partners	<ul style="list-style-type: none"> The Chief Executive developed relationships with the Group's joint venture partners on the HS2 project The Board oversaw the relationship with the Group's joint venture partners on the Mersey Gateway project 	<ul style="list-style-type: none"> Assisted in the development of working relationships and the plan to mitigate the risks associated with the project Feedback assisted management in assessing how to manage the joint venture's claim against the project's designer
 Supply-chain	<ul style="list-style-type: none"> The Board oversaw management's engagement with the supply chain, in particular in relation to payment terms The Board oversaw management's engagement with trade credit insurers following the Group's announcements in June 2019 	<ul style="list-style-type: none"> Assisted management in continuing to drive a reduction in the number of supply-chain payment days Enabled management to develop a strategy for engaging with these institutions, which support the Group's supply-chain
 Pension trustees	<ul style="list-style-type: none"> The Chief Financial Officer engaged with the trustees of the Group's pension schemes in relation to the Group's performance The Chief Financial Officer engaged with the trustees in relation to a revised deficit recovery plan, following the 2019 triennial valuation 	<ul style="list-style-type: none"> Assisted the Board in assessing the schemes' funding requirements prior to discussions relating to the revised deficit recovery plan Enabled the Board to assess an appropriate level of funding for both the Group and the schemes

Corporate Governance Statement

Division of responsibilities

The Board

The role of the Board, and a summary of the matters reserved to it, are set out on page 77.

Biographical details of each of the Directors are set out on pages 84 and 85.

The Board considers its overall size and composition to be appropriate, having regard, in particular, to the diversity of its members, their independence of character, integrity, differences of approach and experience. The skills and experience of the individual Directors, particularly in the areas of construction and related sectors, accounting, finance, strategy, human resources and risk management are fundamental to the pursuit of the Group's purpose, strategy and objectives.

The Company complies with the UK Corporate Governance Code (July 2018 edition) (the Code) recommendation that at least half of the Board, excluding the Chairman, are Non-Executive Directors whom the Board considers to be independent.

For further details of the Board's composition, please see page 83.

The members of the Board

The Chairman and the Chief Executive

Matthew Lester was appointed as Non-Executive Chairman, on 1 January 2020, to replace Philip Cox who stood down on the same date. Mr. Lester was considered to be independent upon appointment.

The Board has clearly defined the roles of the Chairman and Chief Executive and, as required by the Code, the roles are not undertaken by the same individual. The Chairman is responsible for the leadership and effectiveness of the Board, whilst the Chief Executive is responsible for leading the day-to-day management of the Group within the strategy set by the Board. The Chairman sets the agenda for Board meetings, manages the meetings (in conjunction with the Company Secretary) and facilitates the input of all Directors, including encouraging open and constructive dialogue during those meetings.

Non-Executive Directors

The Board considers that it comprises an appropriate combination of Executive Directors and independent Non-Executive Directors who, together, provide the leadership of the Group. Accordingly, no one individual or small group of individuals dominates the Board's decision-making processes.

The Non-Executive Directors provide constructive challenge and strategic guidance to the Executive Directors. In addition, they scrutinise and hold to account the performance of management and the Executive Directors.

As at 30 June 2020, and as at 25 September 2020, the Board comprised a Non-Executive Chairman, four independent Non-Executive Directors and two Executive Directors. Kirsty Bashforth has informed the Board that she will not seek re-election as a Non-Executive Director at the forthcoming Annual General Meeting and will therefore stand down from the conclusion of that meeting. In September 2020, we announced that Alison Atkinson will join the Board as a Non-Executive Director in December 2020.

The Board regards Justin Atkinson, Kirsty Bashforth, Heather Rabbatts and Clive Watson to be independent of the Company's executive management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement or objective challenge of management.

Senior Independent Director

The Senior Independent Director acts as a sounding board for the Chairman and serves as an intermediary for the other Directors and shareholders. During the year, the Senior Independent Director and the other Non-Executive Directors met without the Chairman being present to appraise the Chairman's performance. The Senior Independent Director provided feedback to the Chairman following this meeting.

Information and support

The Chairman, in conjunction with the Company Secretary, ensures that all Board members receive relevant, accurate and timely information so as to support the Board in its decision-making. The Directors have access to the advice and services of the Company Secretary. Independent external legal and professional advice can also be taken when necessary.

Engagement with major shareholders

As part of his induction programme upon joining the Board, Matthew Lester wrote to a number of major shareholders to offer them an introductory meeting, following which Mr. Lester held meetings with certain major shareholders so as to understand their views on a range of matters, including the Group's performance, its strategy and governance.

The feedback from these meetings was taken into account by the Board when agreeing its principal areas of focus over both the remainder of the 2020 financial year and the medium-term.

The new Chair of the Remuneration Committee, Heather Rabbatts, engaged with shareholders with respect to the Company's new remuneration policy, executive remuneration in the 2021 financial year and the significant vote against the Directors' Remuneration Report at the 2019 AGM. Please see the Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102 for further information.

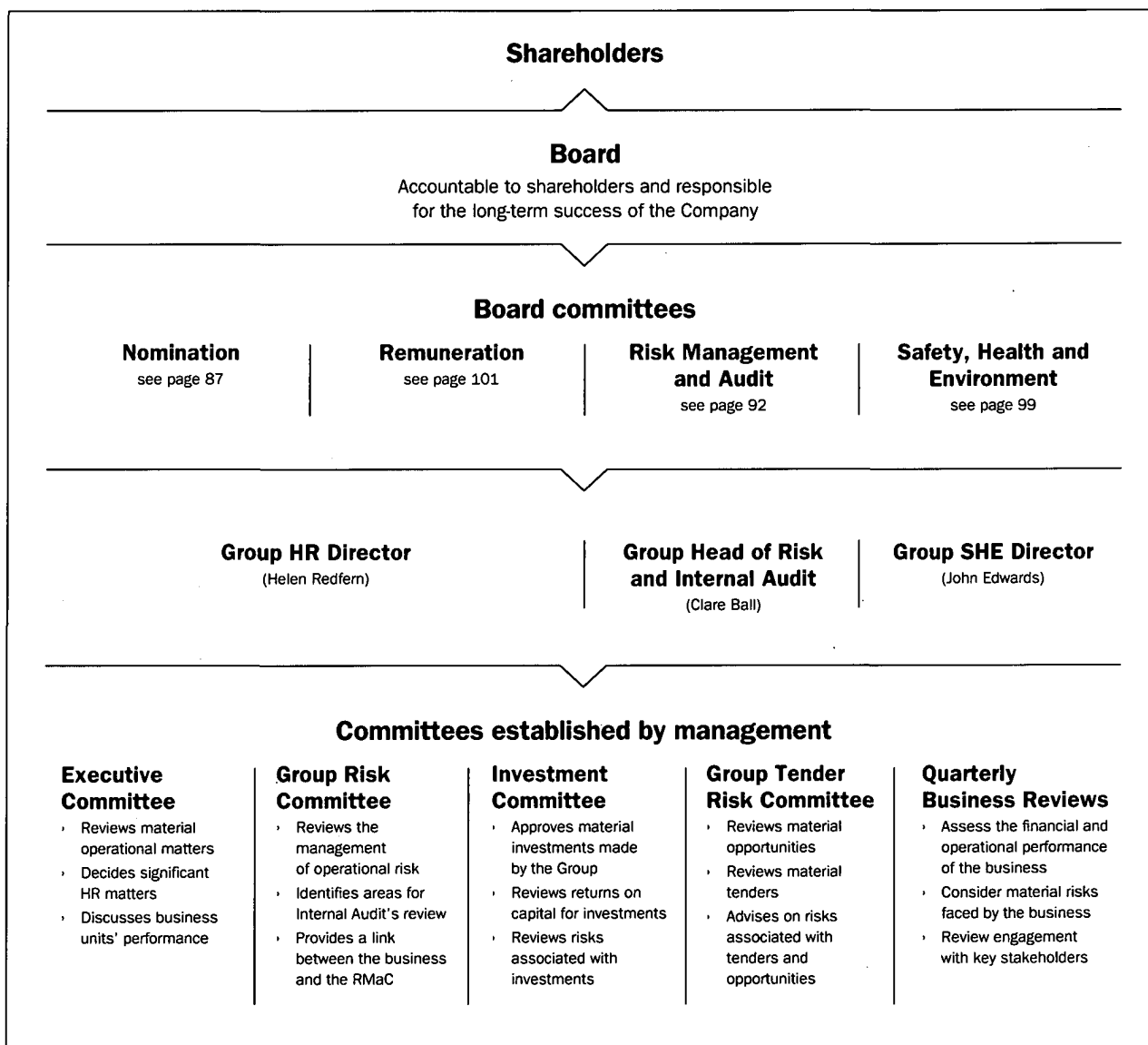
Time commitment

In making recommendations to the Board on Non-Executive Director appointments, the Nomination Committee considers the expected time commitment of the proposed Non-Executive Director and their existing commitments.

The Board is satisfied that the number of external directorships and commitments held by the Chairman, the independent Non-Executive Directors and Executive Directors does not prevent them from meeting their Board responsibilities.

Governance framework

Summary details of the Board's governance framework, together with those individuals who lead the support provided to the Board committees, are as follows:



Corporate Governance Statement

Division of responsibilities (continued)

Board and Committee meeting attendance

Details of attendance by each Director at the principal Board and Board committee meetings during the year (shown as the number of meetings attended/potential number of meetings that could have been attended) are as follows:

Director	Board	Nomination Committee	Remuneration Committee	Risk Management and Audit Committee	Safety, Health and Environment Committee
Philip Cox ¹	10/10	4/6	3/3	–	–
Matthew Lester ²	7/7	1/1	1/1	–	–
Justin Atkinson ³	16/17	6/7	4/4	6/6	3/3
Constance Baroudel ⁴	14/14	5/6	3/3	5/5	2/2
Kirsty Bashforth	17/17	7/7	4/4	6/6	3/3
Andrew Davies	17/17	–	–	–	–
Bev Dew ⁵	7/7	–	–	–	–
Simon Kesterton ⁶	14/14	–	–	–	–
Heather Rabbatts ⁷	2/2	–	1/1	1/1	1/1
Claudio Veritiero ⁸	8/9	–	–	–	–
Adam Walker ⁹	10/10	6/6	3/3	4/4	–
Clive Watson ¹⁰	2/2	–	1/1	1/1	1/1

Notes:

¹ Philip Cox did not attend the Nomination Committee meetings on 17 September and 12 November 2019, the business of which was to consider the Chairman's succession.

² Matthew Lester was appointed to the Board and as Chairman on 1 January 2020.

³ Justin Atkinson did not attend the Board or Nomination Committee meetings on 31 July 2019, each of which related to the appointment of Simon Kesterton as the Chief Financial Officer, due to a prior commitment. Mr Atkinson provided his approval to Mr Kesterton's appointment prior to the meetings.

⁴ Constance Baroudel stood down from the Board on 29 March 2020.

⁵ Bev Dew stood down from the Board on 27 September 2019.

⁶ Simon Kesterton was appointed to the Board as Chief Financial Officer Designate on 26 August 2019 and as Chief Financial Officer on 26 September 2019.

⁷ Heather Rabbatts was appointed to the Board on 30 March 2020.

⁸ Claudio Veritiero did not attend a Board meeting in September 2019 due to prior business commitments. Claudio Veritiero stood down from the Board on 15 November 2019.

⁹ Adam Walker stood down from the Board on 31 December 2019.

¹⁰ Clive Watson was appointed to the Board on 30 March 2020.

The Board held a number of other meetings during the year to discuss, amongst other matters, the effects of COVID-19 on the Group and the Group's engagement with its lenders.

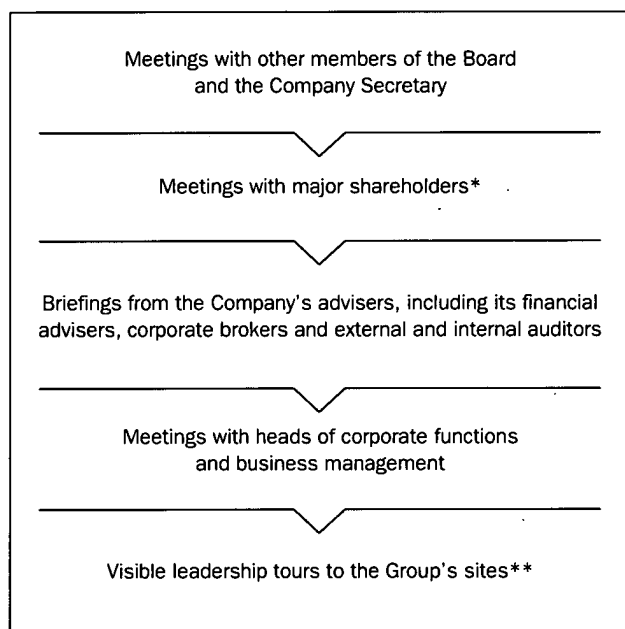
Highlights

- A number of appointments made to the Board during the year
- Inductions for new Board appointments successfully completed
- Actions from the 2019 Board evaluation completed

For further information on how the Nomination Committee operates, please turn to pages 87 to 89 (inclusive).

Director inductions

On joining the Board, Directors undertake a comprehensive and tailored induction programme, the purpose of which is to provide them with an in-depth understanding of the business and how it operates. During the year, Matthew Lester, Heather Rabbatts and Clive Watson were each appointed to the Board and each undertook substantially similar inductions. A summary of the key elements of these inductions is as follows:



* In the case of Matthew Lester.

**The lockdown measures introduced in response to COVID-19 prevented Clive Watson and Heather Rabbatts from conducting visible leadership tours as part of their respective inductions.

Board composition

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

Please see page 85 for the changes to the Board which have been announced since 1 July 2019.

Board composition

- Chairman
- Executive Directors
- Non-Executive Directors

Board tenure

- 0-2 years
- 4-6 years

Board balance

- Male
- Female

Board age

- 45-49
- 50-54
- 55-59
- 60+

Board of Directors

Matthew Lester (57)

Chairman

Tenure on Board: 8 months

Independent: Yes
(on appointment)

N R

Relevant skills and experience:

- A chartered accountant, having trained and qualified at Arthur Andersen
- Substantial strategic and financial experience, through senior finance roles at Diageo and as Group Finance Director of ICAP (from 2006 to 2010) and Chief Financial Officer of Royal Mail (from 2010 to 2017)
- Significant non-executive director experience at Man Group (from 2011 to 2020) and Barclays (from 2017 to 2020)

Principal current external appointments:

- Non-Executive Director of Capita (since 2017)

Andrew Davies (56)

Chief Executive

Tenure on Board: 1 year,
5 months

Independent: No

Relevant skills and experience:

- Strong track record of business leadership across a number of sectors
- Significant experience of mergers and acquisitions and strategy development and implementation
- Significant operational and corporate experience through senior roles and over 28 years with BAE Systems
- Formerly Chief Executive Officer of Wates Group (from 2014 to 2018)

Principal current external appointments:

- Non-Executive Director of Chemring (since 17 May 2016) and Senior Independent Director

Simon Kesterton (46)

Chief Financial Officer

Tenure on Board: 1 year

Independent: No

Relevant skills and experience:

- A member of the Chartered Institute of Management Accountants
- Broad range of financial leadership experience in his former senior roles in the engineering and manufacturing industries
- Formerly Chief Financial Officer, Europe and Chief Strategic Officer at IAC Group and Group Finance Director of RPC Group (from 2013 to 2019)
- Significant experience in the implementation of cost reduction and profitability improvement programmes

Principal current external appointments:

- None

Justin Atkinson (59)

Senior Independent Director

Tenure on Board: 4 years,
11 months

Independent: Yes

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 (from 2004 to 2015) and previously Keller's Group Finance Director and Chief Operating Officer
- Significant operational, financial and strategic experience
- In-depth knowledge of the construction sector, both in the UK and internationally

Principal current external appointments:

- Chairman of Forterra (since May 2019 and formerly the Senior Independent Director and Chair of the Audit Committee from April 2016)
- Non-Executive Director of James Fisher (since May 2018)
- Member of the Audit Committee of the National Trust (since June 2015)

Board committees key

N Nomination Committee

RA Risk Management
and Audit Committee

Chair of the Committee

R Remuneration Committee

S Safety, Health and
Environment Committee

Kirsty Bashforth (50)**Non-Executive Director****Tenure on Board:** 6 years**Independent:** Yes

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 change management, organisational culture and effectiveness
- Wide range of experience in a variety of human capital areas, including engagement, diversity and ethical working practices

Principal current external appointments:

- Chief People and Communications Officer of Diaverum AB (since 1 August 2020)
- Non-Executive Director of Serco (since September 2017) and Chair of the Corporate Responsibility Committee
- Non-Executive Director of PZ Cussons (since November 2019) and Chair of the Remuneration Committee

Clive Watson (62)**Non-Executive Director****Tenure on Board:** 5 months**Independent:** Yes

N R RA S

Relevant skills and experience:

- Significant experience in financial matters, through senior finance positions both in the UK and overseas, latterly as the Group Finance Director of Spectris (from 2006 to 2019)
- Experience of the engineering sector through his roles at Borealis and as a Non-executive Director at Spirax-Sarco Engineering
- Detailed knowledge of systems of risk management and internal control

Principal current external appointments:

- Senior Independent Director and Chairman of the Audit Committee of Breedon Group (since 1 April 2020)
- Chair of the Audit and Risk Committee of discoverIE Group (since 2 September 2019)
- Senior Independent Director and Chairman of the Audit and Risk Committee of Trifast (since 30 July 2020)

Heather Rabbatts (64)**Non-Executive Director****Tenure on Board:** 5 months**Independent:** Yes

N R RA S

Relevant skills and experience:

- Significant operational experience in the local government and the entertainment and sports sectors, in particular
- Experience of the contracting sector through her previous role as a Non-Executive Director of Crossrail
- Significant experience of remuneration matters, having served on a number of Remuneration Committees
- Experience of risk management through her previous role as the Chair of the Audit Committee of Grosvenor Great Britain & Ireland

Principal current external appointments:

- Chair of Soho Theatre Company

Hugh Raven (48)**General Counsel and Company Secretary****Tenure:** 10 years, 5 months**Independent:** n/a**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
- Significant experience of operational legal matters and corporate governance best practice

Principal current external appointments:

- None

Changes to the Board of Directors

- Simon Kesterton was appointed as Chief Financial Officer Designate on 26 August 2019 and assumed the role of Chief Financial Officer on 26 September 2019;
- Bev Dew stood down from the Board on 27 September 2019;
- Claudio Veritiero stood down from the Board on 15 November 2019;
- Adam Walker stood down from the Board on 31 December 2019;
- Philip Cox stood down from the Board on 1 January 2020;

- Matthew Lester was appointed as Non-Executive Chairman on 1 January 2020;
- Constance Baroudel stood down from the Board on 29 March 2020;
- Heather Rabbatts was appointed as Non-Executive Director and Chair of the Remuneration Committee on 30 March 2020; and
- Clive Watson was appointed as Non-Executive Director and Chair of the Risk Management and Audit Committee on 30 March 2020.

Corporate Governance Statement

Composition, succession and evaluation (continued)

2019 Board evaluation – progress against feedback

The 2019 Board evaluation highlighted a number of areas of focus for the Board in 2020. A summary of progress against these areas is as follows:

Area of feedback	Specific areas of focus for 2020	Progress made in 2020
Implement conclusions of strategic review	Reduce the Group's net debt	Both year-end and average month-end net debt increased. Please see 'Financial review' on pages 64 to 71 (inclusive)
Dispose of non-core businesses	Simplify the Group	Sale of Living continues; capital deployed in the Property business reduced; and Environmental Services business substantially exited
Focus on cost reduction programme	Deliver the targeted headcount reductions Deliver the targeted cost reductions	c.1,700 individuals have left the Group since 2018 Significantly exceeded the programme's original targets. Please see Chief Executive's review on pages 6 to 11 (inclusive)
Appoint new Chief Financial Officer	Conclude the appointment process	Simon Kesterton appointed
Engagement with the Group's workforce	Formalise the engagement process	Please see 'Engagement with the workforce' on page 78

2020 Board evaluation

The process

The 2020 Board evaluation was led by the Chairman, with the assistance of the Company Secretary. It focused on the following areas:

- › The Board's decision-making during the financial year;
- › Areas of focus for the Board during 2021;
- › The interaction between members of the Board; and
- › The operation of the Board committees.

A summary of the evaluation process is as follows:

May Feedback relating to the Chairman The Senior Independent Director discussed feedback relating to the Chairman's performance with the Executive Directors, the other Non-Executive Directors and the Company Secretary The Chairman and the Senior Independent Director discussed the feedback	June and July Completion of questionnaire Each Board member was sent a questionnaire to complete	July Evaluation of responses The Company Secretary compiled a report based on the feedback received from Board members and discussed the draft report with the Chairman	August Board discussion The Board reviewed the feedback and agreed the Board's objectives for 2021	August and September Annual Report disclosure Drafting of the Annual Report disclosure relating to the evaluation
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Conclusions

The responses to the questionnaire noted that there had been a number of changes to the Board during the 2020 financial year, with three members of the Board having taken office on or after 1 January 2020, and that COVID-19 had prevented the Board from holding a face-to-face meeting in the last quarter of the financial year. The Board agreed the following specific objectives for the 2021 financial year:

Area of feedback	Objectives for 2021	Why?
Strategic, corporate actions	Focus on re-capitalising the Group and operational cash flows	Reduce the Group's net debt and strengthen its balance sheet
Effective working relationships	As a new Board, identifying ways to work effectively as a team	Enable the Board to make effective decisions for the benefit of the Group's stakeholders
The Group's culture	Continuing to engage with the Group's workforce	Assess whether the Group's culture is aligned to its purpose, values and strategy
Risk management	Continuing to develop the Group's systems of risk management and internal control	Enable the Group to identify, mitigate and manage risk effectively

Chair

Matthew Lester

Other Committee members

Justin Atkinson
Kirsty Bashforth
Heather Rabbatts
Clive Watson



During 2020, the Committee has overseen a number of changes to the composition of the Board.



Allocation of time

- Chairman succession
- Non-Executive Director appointments/resignations
- Executive Directors appointments/resignations

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;
- › Reviewing the succession plan for the Board and senior management, promoting diversity and taking into account the challenges and opportunities facing the Group and the skills and expertise needed on the Board in the future; and
- › Identifying and nominating candidates to fill Board vacancies.

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

Dear shareholder

I am pleased to present the Nomination Committee report, which provides a summary of the Committee's activities during 2020.

Committee composition and meeting attendance

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

At the invitation of the Committee, any other Director may attend meetings of the Committee. During the year, the Chief Executive and the Group HR Director also attended meetings of the Committee.

The secretary of the Committee is the Company Secretary, Hugh Raven.

The Committee met seven times during the year; details of attendance at those meetings are set out on page 82.

Principal activities – 2020 financial year

A summary of the principal matters considered by the Committee during the year is as follows:

Introduction

Following the appointments of Andrew Davies and Simon Kesterton as, respectively, Chief Executive and Chief Financial Officer (CFO) on 15 April 2019 and 26 September 2019, there have been a number of other changes to the Board during the 2020 financial year. The processes relating to the appointments of Andrew Davies and Simon Kesterton are summarised on page 60 of the 2019 Annual Report.

During the year, the following Directors stood down from the Board:

- › Bev Dew (Finance Director): on 27 September 2019;
- › Claudio Veritiero (Chief Operating Officer): on 15 November 2019;
- › Adam Walker (Chair of the Risk Management and Audit Committee) (RMaC): on 31 December 2019;
- › Phil Cox (Chairman): on 1 January 2020; and
- › Constance Baroudel (Chair of the Remuneration Committee): on 29 March 2020.

In addition, in May 2020, the Company announced that Kirsty Bashforth would not seek re-election at the forthcoming AGM and would, therefore, stand down from the Board at the conclusion of the meeting. In September 2020, we announced that Alison Atkinson will join the Board as a Non-Executive Director and as the Chair of the Safety, Health and Environment Committee in December 2020. I look forward to working with Alison.

A number of new appointments to the Board were made during the year, as referred to below.

Appointments during the 2020 financial year

The Committee appointed Lygon Group (Lygon) to conduct a search for candidates for the roles of Chairman, Chair of the RMaC and Chair of the Remuneration Committee and, subsequently, a new Non-Executive Director to join the Board following the announcement that Mrs Bashforth would not seek re-election. There are no connections between Lygon and either the Company or any of the Directors.

In each case, the Committee (or selected members of the Committee), agreed a role profile with Lygon, considered an initial list of candidates and then interviewed a shorter list of candidates for the relevant role. Summaries of the role profiles, and the principal skills and experience which were identified by the Committee when making its recommendation to the Board in relation to the relevant appointment, are set out below.

Corporate Governance Statement

Nomination Committee report (continued)

Chairman

The role profile referred to the following key characteristics and experience:

- › A track record of leading business through change and transformation;
- › A strategic thinker, having a strong grasp of financial strategy; and
- › A strong reputation as a respected business leader.

At the conclusion of the search process, which was led by the Senior Independent Director, Justin Atkinson, I was identified as the preferred candidate, the Committee noting, in particular, my:

- › Previous experience in a number of senior finance roles in a range of different sectors;
- › Strong track record of business leadership; and
- › Strategic approach.

The Committee therefore agreed to recommend to the Board my appointment as Chairman. On 16 December 2019, the Company announced that I would be appointed as Chairman on 1 January 2020 and that Philip Cox would stand down as Chairman and from the Board on that date.

Chair of the RMaC

The role profile referred to the following key characteristics and experience:

- › A strong technical understanding of relevant accounting rules and regulations;
- › An ability to support and challenge management to deliver a turnaround of the Group; and
- › The experience to act as a sounding board to the CFO.

At the conclusion of the search process, Clive Watson was identified as the preferred candidate, the Committee noting, in particular, Clive's:

- › Experience as a member of the board of a number of listed companies;
- › Previous experience as a chair of audit committees; and
- › Lengthy career in various senior finance roles at large companies.

The Committee therefore agreed to recommend to the Board Clive's appointment as the Chair of the RMaC. On 30 March 2020, the Company announced that Clive would be appointed with immediate effect and that the Senior Independent Director, Justin Atkinson, who had been acting as the interim Chair of the RMaC, would hand over to Clive from that date.

Chair of the Remuneration Committee

The role profile referred to the following key characteristics and experience:

- › A track record of communicating with stakeholders on remuneration matters;
- › An ability to link strategic objectives with remuneration policies; and
- › An ability to engage effectively with shareholders on remuneration matters.

At the conclusion of the search process, Heather Rabbatts was identified as the preferred candidate, the Committee noting, in particular, Heather's:

- › Significant experience in both the public and private sectors;
- › Previous experience as a non-executive director; and
- › Previous experience as a member of a number of Remuneration Committees (including Crossrail, the Football Association and Grosvenor Britain & Ireland).

The Committee therefore agreed to recommend Heather's appointment as Chair of the Remuneration Committee to the Board. On 30 March 2020, we announced that Heather would be appointed with immediate effect and that Constance Baroudel had stood down from the Board and as the Chair of the Remuneration Committee.

Details of the process relating to Alison Atkinson will be included in the 2021 Annual Report.

Succession planning

The principal focus of the Nomination Committee during the 2020 financial year has been on managing the changes to the Board which have taken place during the year. The process for completing the establishment of the Executive Committee (the ExCo), following Andrew Davies' appointment as Chief Executive, has continued during the year. Accordingly, the Committee expects to focus on Board and senior management succession planning in the 2021 financial year and subsequent years.

Diversity and inclusion

The Board recognises the benefits of diversity as an important element in its effectiveness.

The Board approved a diversity policy for the Board in 2018. A summary of the principal commitments set out in the policy and how the Committee has applied them in relation to the Board appointments made in the 2020 financial year is as follows:

Commitment	Progress in 2020
Candidate lists to reflect the benefits of diversity and priority to be given to search firms which have signed up to the Voluntary Code of Conduct for Executive Search Firms	Lygon, a signatory to the code, was instructed to identify a diverse list of potential candidates for each of the roles for which searches were conducted in the year
Candidates for Non-Executive Directors to be considered from a wide pool of individuals	In 2020, each Non-Executive Director was appointed from a wide pool of candidates
Increase the number of female members of the Board and senior management, in light of the FTSE 350 target of 33% representation on boards and leadership teams by 2020	No change to the number of female members of the Board c.29.9% of the Board, the ExCo and direct reports to the ExCo are women

The Board's policy on diversity and inclusion requires the Company to develop and implement policies, programmes and initiatives which are designed to implement diversity and inclusion at all levels of the organisation, including at senior management level. During the 2021 financial year, the Board aims to refresh its focus on diversity and inclusion, with one of its aims being to develop a diverse pool of internal candidates for future Board and ExCo roles.

Committee performance evaluation

2019 evaluation – progress made

The 2019 Board evaluation identified the need for the Committee to:

- › Continue to re-shape the Board, having appointed a Chief Executive in the 2019 financial year; and
- › Focus on Board and senior management succession.

During the year, there were a number of changes to the Board, as summarised in this report. Implementing these changes was the principal activity undertaken by the Committee during the 2020 financial year and, accordingly, it expects to focus on succession planning in the 2021 financial year and subsequent years.

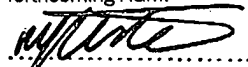
Areas of focus for the Committee in 2021

The Board has agreed the following principal areas of focus for the Committee in the 2021 financial year:

- › Review Board and senior management succession; and
- › Working together with the Board and management, review ways to develop a diverse pool of internal candidates for future Board and ExCo roles.

Re-election of Non-Executive Directors

The tenures of the Non-Executive Directors are set out on pages 84 and 85. The Board is satisfied that each of the Non-Executive Directors is able to commit sufficient time to the Company. Accordingly, resolutions to elect or re-elect each of the Non-Executive Directors, with the exception of Mrs Bashforth who will not be standing for re-election, will be proposed at the forthcoming AGM.



MATTHEW LESTER

Chair of the Nomination Committee

25 September 2020

Highlights

- › Appointment of a new Chair of the RMaC Committee
- › Launch of the Operating Framework
- › Introduction of Group Risk Committee

Systems of risk management and internal control

General

The Board has ultimate responsibility for the Group's systems of risk management and internal control, including those established to identify, manage and monitor risk. The Board has delegated the responsibility for overseeing management's implementation of those 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. The Group Risk Committee, which met for the first time in September 2019, has been formed to provide executive management leadership and oversight of the Group's risk management framework and to act as a link between the RMaC and the business in relation to the management of risk.

Working with the Group Head of Risk and Internal Audit, business unit 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 systems and controls to manage those risks. The Board, the RMaC and the Group Risk Committee oversee the steps taken by management in this respect.

A summary of the key elements of the Group's risk management framework is set out on pages 58 and 59.

Effectiveness review

The Code requires that the Board conducts an annual review of the effectiveness 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 94.

Risk assessment and risk appetite

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

June 2020

Meetings with senior management and the ExCo to agree the Group's principal risks and uncertainties (PRUs)

Draft set of PRUs discussed by the RMaC

July 2020

The ExCo agreed its risk appetite in relation to each of the PRUs, for submission to the Board

August 2020

The Board agreed its appetite in relation to each of the PRUs

August and September 2020

Drafting of the 'Principal risks and uncertainties' section of this Annual Report

September 2020

RMaC and Board approval of the sections of this Annual Report relating to risk management

Financial reporting

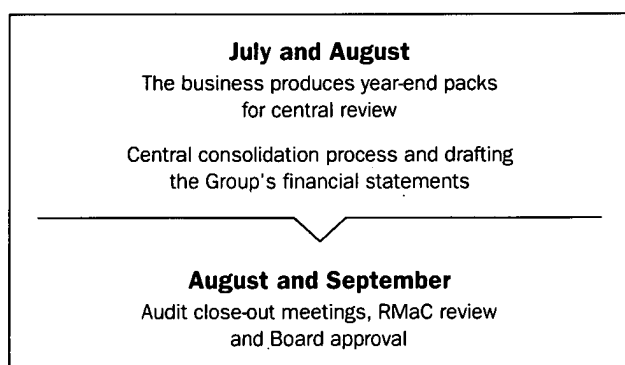
The Group has clear policies and procedures which are designed to ensure the reliability and accuracy of financial reporting, including the process for preparing the Group's interim and annual financial statements. The Group's financial reporting policies and procedures cover financial planning and reporting, preparation of financial information and the monitoring and control of capital expenditure. The Group's financial statements preparation process includes reviews at business and Group levels.

Following the appointment of the senior management team, a number of changes to the Group's financial reporting process have been implemented during the year, including:

- Shortening the period within which businesses provide 'flash' management information following the end of the prior month;
- Formal, weekly cash forecasting; and
- Continuing to develop and improve the Hyperion consolidation system and reduce the extent of manual interventions.

Each business is responsible for monitoring its financial performance. Following the conclusion of each quarter of the financial year, each business conducts a formal quarterly business review, the results of which, in turn, are reported to the Board. The Board then oversees the production of the Group's interim and full-year financial results, reporting them in March and September, respectively, each year.

By way of example, a summary of the process for preparing the full-year 2020 results is:



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. In conducting this work, the RMaC acts on behalf of the Board and its activities remain the responsibility of the Board.

These statements and the Board's statement relating to its assessment of the Group's PRUs are set out on page 76.

Chair

Clive Watson

Other Committee members

Justin Atkinson
Kirsty Bashforth
Heather Rabbatts

“

During the year, the Committee has focused on continuing to develop the Group's core systems of risk management and internal control.

”

Allocation of time

- External audit and financial reporting
- Risk management and internal controls
- Internal audit

Role

The role of the Committee includes:

- Monitoring the Group's financial reporting procedures and the external audit;
- Reviewing the integrity of the Group's financial statements and challenging significant financial and other judgements;
- Reviewing the adequacy and effectiveness of the Group's risk management and internal control systems;
- 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
- Reviewing 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/investors/corporate-governance/board-committees.

Dear shareholder

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

The Group has experienced significant change over the past year: there have been a number of new appointments at senior management level, the Group's headcount has been materially reduced and, so as to support the delivery of its strategic actions which were announced in June 2019, the Group has introduced or improved a number of core processes and disciplines. In addition, COVID-19 has had a material effect on the way in which the Group has operated.

The Board and the Committee have therefore continued to focus on the internal control environment at Kier. The new executive team recognises the importance of effective risk management and continues to work with the Committee to implement improvements where required. In addition, the Committee continues to work closely with both the internal and external auditors to develop the overall effectiveness of the Group's internal controls and financial reporting processes.

Committee composition and meeting attendance

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

As a chartered accountant, and having formerly been the Finance Director of a listed company and as a result of my experience as the Chair of the Audit Committees of other listed companies, I am considered by the Board to have recent and relevant financial experience and competence in accounting and auditing. The Committee as a whole 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 sector through his former roles with Keller;
- Kirsty Bashforth: has commercial, safety, risk management and operational experience through her former role at BP and her other non-executive roles; and
- Heather Rabbatts: has wide-ranging executive and non-executive experience in a range of sectors, including as the Chair of the Audit Committee of Grosvenor Britain & Ireland.

During the year, the following individuals also attended Committee meetings:

- the Chairman, the Chief Executive, Chief Financial Officer and the Group Commercial Director;
- the Group Financial Controller and representatives from PwC for external audit matters; and
- the Group Head of Risk and Internal Audit, other members of the Risk and Internal Audit function and representatives from Grant Thornton LLP (Grant Thornton), the Group's co-sourced internal audit services provider in the 2020 financial year.

Outside the formal meetings, I had discussions with members of management (including the Chief Financial Officer and the Group Head of Risk and Internal Audit) and representatives from PwC and Grant Thornton to review a number of matters relating to the operation of the Committee, including: the results of internal audits, the strategies and plans for the external and internal audits and the steps taken by management to continue to improve the Group's control environment.

The secretary of the Committee is the Company Secretary, Hugh Raven.

The Committee met six times during the year; details of attendance at those meetings are set out on page 82. The Board was provided with an update on the principal matters arising at those meetings.

Principal activities – 2020 financial year

The principal agenda items of the Committee meetings held during the year were as follows:

<p>September 2019</p> <p>Review of the Group's FY19 results (and ancillary matters)</p> <p>Review of assessment of Group's systems of risk management and internal control</p>
<p>December 2019</p> <p>Evaluation of the effectiveness of the internal and external auditors</p> <p>Progress against the FY20 internal audit plan</p> <p>Risk management update (including review of corporate risk register)</p>
<p>March 2020</p> <p>Review of the Group's FY20 interim results (and ancillary matters)</p> <p>Progress against the FY20 internal audit plan</p> <p>Risk management update (including review of corporate risk register)</p>
<p>June 2020</p> <p>FY20 audit strategy</p> <p>2020 Annual Report timetable</p> <p>Approval of the Group's tax strategy</p> <p>Risk management update (including review of corporate risk register)</p> <p>Preliminary review of systems of risk management and internal control</p> <p>Progress against the FY20 internal audit plan, approval of FY21 internal audit plan and review of internal audit resources</p> <p>Approving the non-audit services policy for FY21</p>

Board statements

Under the Code, the Board is required to provide a number of statements. These statements are set out on page 76.

Information on the work to support the Board's statement on the Group's systems of risk management and internal control is set out under 'Systems of risk management and internal control – Effectiveness review' on page 94, information on the work to support the going concern statement is set out under 'Going concern' on pages 69 and 70 and information on the work to support the viability statement is set out under 'Viability statement' on pages 70 and 71.

Corporate Governance Statement

Risk Management and Audit Committee report (continued)

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 58 and 59.

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.

Management conducted an assessment of the key elements of these systems, taking into account the Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Business Reporting (September 2014). A summary of the review is as follows:

Area of review	Summary of the review's findings
The application of the Group's risk management processes in practice	Increased rigour has been introduced to the Group's management of contract risk
The business units' approach to financial reporting	Improvements were made during the year, with further improvements proposed
The Group's approach to identifying and managing risk	Greater formality has been introduced across the Group during the year
The application of the Group's framework of internal control	The introduction of the Operating Framework during the year has, in particular, added resilience
The approach to reviewing the Group's systems of risk management and internal control	The internal audits undertaken during the year covered a number of key elements of the systems

One of the Committee's principal areas of focus for the 2021 financial year will be to oversee the continued development of the Group's systems of risk management and internal control. Please see 'Committee performance evaluation – Areas of focus for the Committee in 2021' on page 98 for further information.

The Board's statement with respect to the effectiveness of the Group's systems of risk management and internal control, following this review, is set out on page 76.

Internal audit

Internal audits – 2020 financial year

During the year, the Committee monitored progress against the 2020 internal audit plan. Results from these audits were discussed by the Committee, together with the follow-up actions taken by management.

During the year, 14 internal audits were completed using the services of Grant Thornton, the co-sourced internal auditor in the 2020 financial year and the Group's Internal Audit function. These audits covered a range of areas, including commercial governance, HR processes, tax and other elements of the Group's internal control environment and were selected so as to assess the Group's potential exposure to its principal risks and uncertainties and/or to develop ways to remedy any identified weaknesses in the Group's systems of risk management and internal control. A summary of the findings of four of these audits is as follows:

Audit	Summary of work	Summary of findings
Commercial governance	Review of the application of the Group's commercial standards, including financial reporting, change management and sub-contractor appointment	Identified the need to revise the standards to reflect the new Operating Framework and align them with the Performance Excellence culture
HR processes	Review of certain processes, including those relating to performance management, succession planning and onboarding	Identified inconsistent application of processes and a need to focus on inductions, training and HR systems
Lessons learned	Review of the application of the Group's processes to capture and share learnings	Identified the need for an increased focus on capturing and sharing learnings
Tax	Review of tax governance and CIS and VAT controls. A follow-up to the 2019 review	Confirmed a significant improvement in the control environment

Before each audit, the scope of review, timetable and resources required were agreed with management. Updates were provided to management and members of the Committee on the status of ongoing audits at Committee meetings during the year.

Internal audits – 2021 financial year

The internal audit plan for the 2021 financial year is designed to assist management, the Committee and the Board to manage the principal risks and uncertainties relating to the Group. At its meeting in June 2020, the Committee agreed that the internal audit plan needed to reflect the practical challenges of operating during the COVID-19 pandemic. The Committee therefore approved a plan for the six months ending 31 December 2020 and agreed that it would approve the plan for the second-half of the 2021 financial year in due course.

During the first-half of the 2021 financial year, internal audits are expected to be conducted in relation to the following areas:

- › Compliance with the Group's site operating procedures;
- › Compliance with the Coronavirus Job Retention Scheme requirements; and
- › Certain aspects of the Group's financial controls.

Further details of the audits conducted during the 2021 financial year will be included in the 2021 Annual Report.

Internal Audit function effectiveness

To assess the effectiveness of the Internal Audit function, members of the Committee and senior management completed a questionnaire addressing various aspects of both the internal audit function's and Grant Thornton's performance. The feedback was reviewed by the Committee at its meeting in December 2019.

The Committee concluded that, overall, the Internal Audit function was operating effectively within its remit. A summary of the results of the review is as follows:

Strengths

- › Clarity of reporting and recommendations
- › Use of co-sourced subject matter experts
- › Clarity provided by monthly action tracker

Future areas of focus

- › Increase visibility of the function across the Group
- › Continue to develop the function's business knowledge
- › Timely communication of final reports

External audit

2019 audit

The external auditor, PwC, has informed the Committee that the Audit Quality Review function of the Financial Reporting Council (the FRC) has selected PwC's audit of the Company's 2019 financial statements for review. At the date of this Annual Report, the review is ongoing.

2020 audit

The following table summarises the key steps taken by the Board and/or the Committee in overseeing the 2020 external audit by PwC:

Event	Issue	Actions taken by the Board/the Committee
June Committee meeting	PwC's 2020 audit plan PwC's resources	Discussed the plan, including the scope of the audit Reviewed, so as to ensure that the audit was adequately resourced
	COVID-19	Discussed PwC's approach to reviewing the effects of COVID-19 on the Group's financial statements
	PwC's audit risk assessment Materiality level for the audit	Reviewed and discussed PwC's approach to risks identified during its audit planning Discussed PwC's preliminary proposal
August Board meeting	Preliminary views on key audit issues	Discussed PwC's views on the issues identified to date, including the proposed approach to the going concern review and adjusting items
September Board and Committee meetings	Review of 2020 audit plan	Reviewed progress against the plan discussed in June
	2020 audit fee	Agreed the final audit fee
	Going concern and viability statements	Discussed the statements with PwC and management
	Audit findings, significant issues and other accounting judgements Management representation letter	Discussed these with PwC and management Approved the letter, following a review by management

Corporate Governance Statement

Risk Management and Audit Committee report (continued)

2020 financial statements – 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 and the Board determined that the significant issues and other accounting judgements relating to the 2020 financial statements are as shown in the table below.

Significant Issues and/or accounting judgements	Action undertaken by the Committee/the Board
Going concern	<p>In conjunction with PwC, the Committee and the Board reviewed and assessed the work undertaken to support the adoption of the going concern basis for the 2020 financial statements.</p> <p>In particular, the Committee and the Board reviewed the Group's cash flow forecasts over the period ending 31 December 2021 which are included in the Group's three-year strategic plan and the assumptions on which such forecasts are based. The Committee and the Board also considered the stress-testing of these forecasts for severe but plausible downside scenarios that could have an impact on the Group and the availability of mitigating actions, including the Group's management of working capital, in the event that such scenarios occurred.</p> <p>For further information on the work to support the going concern basis of preparation for the 2020 financial statements, please see 'Going concern' on pages 69 and 70. The going concern statement is set out on page 76.</p>
Contract accounting	<p>The Group has significant long-term contracts in the Infrastructure Services and Construction businesses. Accounting for long-term contracts was therefore identified as a key area of focus for the 2020 audit.</p> <p><i>An assessment of the likely profit on long-term contracts requires significant judgement because of the inherent uncertainty in preparing estimates of the forecast costs and revenue. Recoverability of work-in-progress on long-term services contracts involves significant estimates, including an estimate of the end-of-life outcome of the projects.</i></p> <p>During the year, the Board reviewed management's latest assessment of the forecast costs of, and revenues from, certain of the Group's long-term contracts (in particular, following the outbreak of COVID-19) and the Committee and the Board discussed PwC's review of management's assessment of the performance of certain of the Group's contracts so as to satisfy themselves as to the positions taken in the 2020 financial statements.</p>
Presentation of the Group's financial performance	<p>The Group has updated its principal alternative performance measure (APM) to 'adjusted operating profit' so as to make the APM consistent with the measures used by management to assess the Group's financial performance.</p> <p>The Committee and the Board (i) discussed the reasons for adopting the revised presentation of the financial statements with management and PwC and (ii) agreed the classification of, and disclosures relating to, the adjusting items presented in the 2020 financial statements, noting that the approach to clarifying and presenting 'adjusting items' in the 2020 financial statements was consistent with the approach adopted by the Group for internal financial reporting purposes.</p>
Impairment of goodwill	<p>The review of the carrying value of goodwill in Infrastructure Services was identified as a key area of focus for the 2020 audit, in light of the deterioration in trading conditions during the year, in particular due to COVID-19.</p> <p>Having discussed the review with management and PwC, the Committee and the Board agreed that, although there was no requirement to take an impairment charge with respect to the Infrastructure Services business, specific disclosures would be included in the notes to the 2020 financial statements as to the potential sensitivity of the available headroom in the impairment model to changes in key assumptions.</p>
Carrying value of land and development inventory	<p>PwC reviewed and evaluated management's assessment of the net realisable value of inventory in the Property and Living businesses at 30 June 2020. In particular, PwC focused its work on the Group's £45.2m of commercial property development sites, for which forecast margins have reduced as a result of the change in market conditions due to COVID-19. PwC also focused on the £19.8m impairment charge associated with the exit of certain sectors and regional offices.</p> <p>Following PwC's review of management's assessment of the inventory in the Property business, the Board and the Committee agreed that no other impairments were required.</p>
COVID-19	<p>The COVID-19 pandemic was identified as having a potentially significant impact on certain areas of the Group's financial statements.</p> <p>Following the outbreak of the pandemic, the Board and the Committee worked with PwC and management to ensure that its effects were appropriately reflected in the Group's financial statements, in particular in relation to its effect on: the Group's long-term contracts, the presentation of the financial statements (noting the need, in particular, to disclose the impact of the pandemic on the Group's results) and the sale of Kier Living. The Committee also noted that COVID-19 did not appear to have had a material adverse effect on the Group's control environment.</p>
Carrying value of investments in Kier Limited and Kier Living Limited	<p>In light of the size of the Company's investment in its principal operating subsidiary, Kier Limited, relative to the Company's market capitalisation, the carrying value of this investment was identified as a key area of focus for the 2020 audit, as was the carrying value of the Company's investment in Kier Living Limited (Kier Living).</p> <p>Following PwC's review, the Board and the Committee concluded that no impairment was required against the carrying value of the investment held by the Company in Kier Limited and that the impairment in respect of the Company's investment in Kier Living had been determined appropriately.</p>

2020 Annual Report – fair, balanced and understandable statement

At its meetings in September 2020, the Board and the Committee discussed the 'fair, balanced and understandable' statement and the work undertaken to support it, which included:

Who?	How assurance was provided
Annual Report working group	The working group comprised individuals involved in the drafting of the Annual Report Material disclosure items were discussed by the working group The working group members reviewed the sections drafted by them in light of the 'fair, balanced and understandable' requirement
Key contributors to the Annual Report	Certain key contributors to sections of the Annual Report (for example, managing directors and finance directors within the business) were asked to confirm the accuracy of the information provided
External support	External support was provided by PwC, FutureValue, a corporate reporting consultancy, and Willis Towers Watson, who reviewed the Directors' Remuneration Report
The Committee and the Board	Drafts of the Annual Report were circulated to individual members of the Board, the Committee and the full Board for review

External auditor effectiveness and audit quality

During the year, the Committee conducted an evaluation of PwC's performance (with respect to the 2019 audit). A questionnaire was issued to key stakeholders, including members of the Committee and those involved in the 2019 audit. Feedback from the evaluation was discussed by the Committee at its meeting in December 2019.

A summary of the results of the evaluation is as follows:

Strengths

- › Good level of engagement with the business' management
- › High level of technical knowledge
- › Audit team demonstrates a good knowledge of the industry

Future areas of focus

- › Continue to resource the audit team appropriately
- › Continue to plan the audit effectively
- › Maintain the continuity of the audit team from previous years

The Committee will formally assess PwC's performance in relation to the 2020 audit following its completion. A resolution to re-appoint PwC as the external auditor will be proposed at the 2020 AGM.

Corporate Governance Statement

Risk Management and Audit Committee report (continued)

External auditor independence and non-audit services

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

Fees	Approval required
Up to £10,000	May be authorised by the Chief Financial Officer on individual assignments (not exceeding £50,000 in any financial year)
Above £10,000	Must be approved in advance by the Committee. Where approval is urgently required, this may be provided by the Chair of the Committee (subject to the subsequent reporting of the approval to the Committee)

The Company's non-audit services policy reflects the FRC's revised Ethical Standard for Auditors (2019). The policy, which was last reviewed by the Committee in June 2020, provides that the Committee expects that the level of non-audit fees in any one financial year will not exceed 15% of the audit fees payable in relation to the previous year. The Committee may approve non-audit fees in excess of this figure, up to 70% of the average of audit fees paid in the previous three years, subject to the Committee being satisfied that (i) there is clear evidence that the auditor's skills and experience make it the most appropriate firm to provide the relevant services and (ii) the auditor's independence and objectivity would not be compromised by the appointment.

The total non-audit fees paid to PwC in FY2020 were £970,000, which is approximately 31.7% of the 2019 audit fee of £3,057,485. The non-audit fees related to PwC's work in relation to the review of the Group's 2020 interim financial statements (£270,000) and its engagement as reporting accountants in relation to the sale process for the Group's Living business (£700,000). PwC was engaged as reporting accountants for the sale process because it had recently provided similar services to the Group in relation to the 2018 rights issue, enabling its reporting accountants team to gain an understanding of the Group's systems and operations. The Committee concluded that PwC's independence and objectivity were not compromised by it providing these services.

PwC first audited the Group's financial statements in the 2015 financial year. Andrew Paynter was appointed as the lead audit partner in January 2019. PwC requires the lead audit partner to change after five years. As part of the 2020 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.

Committee performance evaluation

2019 evaluation – progress made

The Committee made good progress in relation to the key areas of focus identified by the 2019 Board evaluation:

Area of focus	Progress made in 2020
Oversee the continued development of the Group's risk management framework	<ul style="list-style-type: none"> Please see pages 58 and 59 for a summary of the Group's risk management framework During the year, the Committee reviewed the Group's systems of risk management and internal control. Please see 'Systems of risk management and internal control' on page 94
In conjunction with PwC, continue to consider significant accounting judgements	<ul style="list-style-type: none"> The Committee reviewed significant accounting judgements in the context of the 2020 interim financial statements and the 2020 financial statements Please see '2020 financial statements – significant issues and other accounting judgements' on page 96
Review ways to optimise the use of the Internal Audit function	<ul style="list-style-type: none"> The Committee reviewed progress against the FY20 internal audit plan The Committee reviewed the internal and external resources available to the Internal Audit function
Oversee the implementation of the FRC's recommendations following its review of the Company's 2017 Annual Report	<ul style="list-style-type: none"> During the 2020 financial year, the FRC confirmed that its review had concluded The Committee oversaw the implementation of the FRC's recommendations in the 2019 Annual Report

Areas of focus for the Committee in 2021

The Board has agreed that, in the 2021 financial year, the Committee would continue to focus on the issues identified in the 2019 Board evaluation, providing oversight and challenge in relation to the following specific areas:

- Progress against the internal audit plan and the resources required to deliver it;
- The continued development of the Group's systems of risk management and internal control, applying the '3 lines of defence' model;
- The resilience of the Group's plans to manage Brexit-related issues; and
- The management of the risks associated with the effects of COVID-19.


CLIVE WATSON

Chair of the Risk Management and Audit Committee

25 September 2020

Chair

Kirsty Bashforth

Other Committee members

Justin Atkinson
Heather Rabbatts
Clive Watson

“

It is a credit to our SHE and site-based teams that so many of the Group's projects have been able to adapt their working practices and continue to operate safely during COVID-19.

”

Allocation of time

- Reviewing KPIs
- Key incidents
- Environmental issues
- Health and wellbeing
- SHE campaigns and training

Role

The role of the Committee includes:

- Reviewing the Group's strategy with respect to SHE matters and challenging management to implement it;
- Encouraging management's commitment and accountability with respect to managing the Group's SHE risks; and
- Reviewing the Group's exposure to SHE risks and monitoring 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

Dear shareholder

Although the Group has experienced both significant change and the effects of COVID-19 during the 2020 financial year, the Committee has maintained its focus on overseeing the consolidation of the Group's safety culture and performance, with employee health and wellbeing being a particular area of focus during the year.

During the last quarter of the 2020 financial year, COVID-19 created challenges for the Group's sites and places of work which are unprecedented in recent times. To enable the Group to continue to operate during the pandemic, the Committee oversaw management's implementation of the Group's revised site operating procedures, which were based on and reflected Government guidelines. It is a credit to our SHE and site-based team that so many of the Group's projects have been able to adapt their working practices to continue to operate safely during COVID-19.

Committee composition and meeting attendance

The names of the members of the Committee are set out above. The Chief Executive and the Group SHE Director also attended the Committee's meetings during the year.

The secretary of the Committee is the Company Secretary, Hugh Raven.

The Committee met three times during the year; details of attendance at those meetings are set out on page 82.

Principal activities – 2020 financial year

Safety

The Group's average 12-month AIR (112) and average 12-month AAIR (363) increased, by c.32% and c.9%, respectively, as compared to the equivalent figures for the 2019 financial year. However:

- The Group's AIR and AAIR at 30 June 2020 of 87 and 304 decreased by c.16% and c.15%, respectively, as compared to the equivalent figures at 30 June 2019; and
- The Group's AIR and AAIR have decreased by c.59% and c.54%, respectively, as compared to the equivalent figures for the 2016 financial year.

The Committee oversaw management's response to the increase in the Group's AIR and the AAIR during the year, which included: requiring site teams to re-focus on the basics of safety management, emphasising the need to adopt appropriate behaviours, alongside processes, when managing safety risks and encouraging the sharing of learnings from safety incidents. During the year, the Committee invited members of management to attend Committee meetings to review incidents and near misses.

Members of the Board and the Committee regularly undertake site visits or visible leadership tours (VLTs) in order to gain an insight into operating practices, meet those working on site and further build their understanding of, and gain assurance about, the Group's SHE practices and culture. In the 2020 financial year, members of the Board conducted 66 such visits, including to the Luton DART, Broadmoor Hospital and HS2 projects.

Health

The health, both physical and mental, of our employees remains a key area of focus for the Committee and management, particularly so during the COVID-19 pandemic. During the year, the Committee continued to monitor the reasons for sickness absence, focusing in particular on the steps taken by management in relation to key issues such as mental health, depression, anxiety and musculoskeletal disorders. The Committee also monitored the

Corporate Governance Statement

Safety, Health and Environment Committee report (continued)

steps taken to manage the cost of sickness absence, overseeing a reduction in the average monthly cost during the year, despite a significant increase in March 2020 as a result of COVID-19.

Environment

The Committee oversaw the launch in March 2020 of the Group's 'Building for a Sustainable World' framework, the principal purpose of which is to create a strategy to embed a focus on environmental and sustainability issues within the Group. This strategy is expected to take up to five years to implement and the Committee proposes to monitor its progress over this time. Further information is set out on pages 42 and 43.

Committee meetings

The following matters were considered by the Committee at each meeting during the year:

Matters	Consideration
Key incidents	The Committee reviewed reports about material safety or environmental incidents. The Group Managing Director – Infrastructure attended the Committee's meeting in December 2019 to report on an incident which involved collapsed scaffolding at the Farringdon site of the Crossrail project and to discuss the lessons learned from the incident
SHE performance	The Committee reviewed the Group's SHE performance against a number of KPIs relating to the AIR and the AAIR, VLTs undertaken by management, high potential incidents, construction waste, carbon emissions, sickness absence and drugs and alcohol testing
VLTs	The Committee discussed feedback from Committee members' VLTs

During the year, the Committee's other activities included:

Matters	Consideration
Health and wellbeing	<p>The Committee discussed:</p> <ul style="list-style-type: none"> Steps taken by management to reduce the cost of sickness absence The Group's management of mental health issues in the workplace Drugs and alcohol testing, overseeing the appointment of a new, external provider of testing services Various health and wellbeing initiatives implemented throughout the Group
Environmental	<p>The Committee:</p> <ul style="list-style-type: none"> Oversaw progress against the Group's environmental strategy Oversaw management's implementation of certain environmental campaigns Oversaw management's approach with respect to the Environment Agency's review of the movement of topsoil on the M20 and M23 Smart Motorways projects
Safety	<p>The Committee:</p> <ul style="list-style-type: none"> Oversaw management's implementation of measures to mitigate against COVID-19 Reviewed the Group's safety performance against a series of leading indicators

Committee performance evaluation

2019 evaluation – progress made

The 2019 Board effectiveness review identified a need for the Committee to:

- Continue its focus on the management of the health and wellbeing of the Group's employees; and
- Continue its focus on environmental issues facing the Group.

In the 2020 financial year, and as summarised above, the Committee oversaw the approach to the management of mental health issues within the Group's workforce and the launch of the new 'Building for a Sustainable World' framework.

Areas of focus for the Committee in 2021

The Board has agreed the following principal areas of focus for the Committee in the 2021 financial year:

- Oversee the operation of the Group's policies and practices relating to safety and the health and wellbeing of its workforce, in the light of COVID-19; and
- Oversee the implementation of the 'Building for a Sustainable World' framework.

Conclusion

As previously announced, I have decided not to stand for re-election as a Director at the AGM and I will, therefore, stand down from the Board with effect from the conclusion of the meeting. It has been a privilege to be the Chair of the Committee. Safety is the number one priority at Kier and I am sure that it will continue to be so.



KIRSTY BASHFORTH

Chair of the Safety, Health and Environment Committee

25 September 2020

Directors' Remuneration Report

Annual Statement of the Chair of the Remuneration Committee

Chair

Heather Rabbatts

Other Committee members

Justin Atkinson
Kirsty Bashforth
Matthew Lester
Clive Watson

“

The Committee's approach to remuneration seeks to incentivise the Executive Directors to deliver and to align their interests with those of shareholders.

”

Allocation of time

- Executive Directors – exit terms
- Chief Financial Officer – appointment terms
- FY20 bonus targets
- FY20 LTIP targets
- New remuneration policy
- FY21 remuneration
- Governance matters

Role

The role of the Committee includes:

- Setting the remuneration policy relating to the Executive Directors and the Non-Executive Directors;
- Setting the remuneration of the Chairman, the Executive Directors and senior management;
- Reviewing workforce remuneration and related policies;
- Approving the design of, and determining targets for, any annual bonus schemes applicable to the Executive Directors and senior management;
- Approving annual bonus payments made to the Executive Directors and senior management;
- Approving the design of, and determining the performance measures for, all share or share-based plans applicable to the Executive Directors and senior management;
- Reviewing the vesting of all share or share-based plans applicable to the Executive Directors and senior management;
- Considering payments to former Directors to ensure that they are within the terms of the remuneration policy;
- Engaging with institutional investors on remuneration matters; and
- Appointing remuneration consultants and setting their terms of reference.

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

Dear shareholder

I am pleased to present my first annual statement, following my appointment as the Chair of the Committee on 30 March 2020.

Introduction

The Directors' Remuneration Report for 2020 is divided into three principal sections:

- This annual statement, which summarises the Committee's activities and decisions taken during the year;
- The new remuneration policy, which shareholders will be asked to approve at the Annual General Meeting on 17 December 2020; and
- The annual report on remuneration, which provides details of the remuneration paid to the Board in the 2020 financial year (FY20) and to be paid in the 2021 financial year (FY21).

Context for the Committee's decisions in 2020

The Group has experienced a number of significant challenges in FY20. When making its decisions during the year, the Committee has taken into account a number of factors, including:

- **The 2019 AGM vote:** the Committee recognises the significant vote against the Directors' Remuneration Report at the 2019 AGM. The feedback that I received during my engagement with shareholders during the Summer indicated that the principal concern related to the level of LTIP awards for the Executive Directors, rather than, for example, the overall structure of remuneration at Kier. Please see 'Looking forward – FY21 – LTIP awards' on page 102 for further information about the LTIP awards to be granted in FY21;
- **COVID-19:** the effects of COVID-19 have been unprecedented in modern times and are likely to have a long-term effect on business, the economy and society in general. The Group's performance in the last quarter of FY20 was materially and adversely affected by the pandemic. However, prior to COVID-19, good progress had been made with respect to delivering a number of the strategic actions announced by the Group in June 2019 and, following the outbreak of the pandemic, management took a number of decisive actions to enable the Group to continue to operate as efficiently as possible in the circumstances, including implementing temporary pay reductions. Please see the Chief Executive's review on pages 6 to 11 (inclusive) for further information; and
- **The Group's financial performance:** although the Group reported a loss of c.£196m for FY20, its underlying performance remained resilient despite COVID-19. For example, the Group has continued to deliver critical national infrastructure projects and provide services across a range of sectors with, on average, c.80% of the Group's sites remaining open during the fourth quarter of FY20 and the Group's order book of £7.9bn provides good visibility of future work. However, the Committee recognises that a number of material steps still need to be taken to reduce the Group's net debt and strengthen its balance sheet.

FY20 outcomes

Annual bonus

Although, in the first nine months of FY20, good progress was made in delivering a number of its strategic actions, the Group did not meet its bonus targets for FY20. Accordingly, no bonus will be paid to the Executive Directors or members of the Executive Committee (the ExCo) in respect of FY20. Further information about the annual bonus is set out on page 114.

Directors' Remuneration Report

Annual Statement of the Chair of the Remuneration Committee (continued)

Vesting of LTIP awards

The LTIP awards granted in October 2017 to each of Haydn Mursell, Bev Dew and Claudio Veritiero lapsed upon termination of their employment by the Company. Further information about these LTIP awards is set out on page 115. The first LTIP awards granted to Andrew Davies and Simon Kesterton are scheduled to vest in October 2022.

Looking forward – FY21

Remuneration across the Group

In determining the FY21 remuneration of the Executive Directors and senior management (being the members of the ExCo) and its approach with respect to the new remuneration policy, the Committee reviewed the workforce's remuneration and took into account the approach to remuneration across the Group as a whole. In particular, the Committee reviewed:

- Salary information relating to the workforce, noting that increases of up to 2% will be awarded across the Group with effect from 1 October 2020;
- The other elements of remuneration payable to the workforce – for example, the bonus opportunities to be made available to certain levels of employee in FY21; and
- The Group's latest gender pay gap statistics, which related to the year ended 5 April 2019, noting that the salary gap had decreased as compared to the year ended 5 April 2018 and that, whilst the bonus gap had increased, a higher proportion of women received a bonus than in previous years.

New remuneration policy

Shareholders will be asked to approve the new remuneration policy, which is set out on pages 105 to 112 (inclusive), at the Annual General Meeting on 17 December 2020.

During my engagement with shareholders, no material concerns were raised about the structure of the Group's current remuneration framework and the feedback that the Committee received following the significant vote against the Directors' Remuneration Report at the 2019 AGM indicated that shareholders' concerns related to the implementation of the policy, rather than the policy itself.

The Committee has, therefore, decided to retain the overall structure of the current remuneration policy, whilst updating it, bringing in line with the UK Corporate Governance Code and best practice and reflecting shareholders' feedback.

For example, the Committee has:

- With respect to LTIP awards, formally introduced into the policy the discretion for the Committee to override formulaic outcomes or unreasonable vesting levels, reflecting feedback received from shareholders during my recent engagement with them;
- Formally introduced a two-year post-termination shareholding requirement into the policy (such a requirement having already been included in each of the Chief Executive's and the Chief Financial Officer's service agreements);
- Reviewed the malus and clawback provisions to ensure that they remain in line with best practice; and
- Reduced the maximum annual pension contributions payable by the Company on behalf of the Executive Directors to align them with employer contributions made available to the wider workforce.

New LTIP rules

The 2010 LTIP rules expire in November 2020 and so the Company will seek shareholder approval at the 2020 AGM for the new LTIP rules. The new rules will be substantially in line with the existing rules, updated to reflect developments in market practice and good governance since 2010, and will include the express discretion for the Committee to modify the vesting levels of awards in the circumstances referred to above under 'New remuneration policy'.

Base salaries

The Committee decided that, in line with the increase in base salaries across the workforce, the base salary of the Chief Financial Officer will increase by 2% to £484,500 (FY20: £475,000) with effect from 1 October 2020. The Chief Executive decided not to take an increase in base salary in FY21.

Annual bonus

The maximum bonus opportunity for each of the Chief Executive and the Chief Financial Officer will remain 125% of base salary.

The 2020 bonus targets are expected to relate to profit, net debt, the Group's safety performance and personal objectives, with a maximum of 25% of the opportunity relating to the non-financial targets. The actual targets and performance against them will be disclosed in the 2021 Annual Report.

LTIP awards

The level and performance conditions of the FY21 LTIP awards was the principal area of shareholders' focus during my recent engagement with them.

The Group is operating in challenging circumstances; COVID-19 has had a significant impact on the Group's current performance and its effect on the Group's future prospects remains to be seen; and the Group is currently undertaking a number of important corporate activities to secure its turnaround and build the foundations for its future. In light of these factors, the Committee continues to reflect on the level of, and the performance conditions for, the FY21 LTIP awards, so as to ensure that the awards appropriately incentivise executive management to deliver for shareholders over the longer-term. The level of the awards will, however, not exceed 175% of base salary and, in line with the awards granted in recent years, the performance conditions are expected to relate to EPS growth and/or TSR outperformance and/or the Group's net debt: EBITDA performance over the performance period. The Committee will announce further details relating to the awards in mid-November 2020.

Pension contributions

The pension contributions payable by the Company to the Group's pension scheme on behalf of each of the Chief Executive and the Chief Financial Officer in FY21 will remain at 7.5% of their respective base salaries, which is aligned with Company pension contributions made available to the wider workforce.



HEATHER RABBATTS
Chair of the Remuneration Committee

25 September 2020

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Background information

Approach to remuneration at Kier

Our remuneration policy aims to:

- › **align with strategy and incentivise and reward performance:** over two-thirds of the Executive Directors' maximum remuneration opportunity is variable and relates to the Group's performance against its strategic priorities;
- › **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; and
- › **support the delivery of the Group's strategy and promote its long-term success:** to achieve this aim, the Group needs to attract and retain talented management. The Committee therefore 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 are 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 are subject to a two-year holding period.

Summary of the Executive Directors' remuneration in 2020 and 2021

The tables and charts below:

- › summarise the Executive Directors' remuneration in 2020;
- › summarise the principal elements of the Executive Directors' remuneration in 2021; and
- › provide an illustration of the remuneration that the Executive Directors may receive under different performance scenarios in 2021.

Executive Directors' remuneration – 2020

The following table summarises the key elements of the Executive Directors' remuneration in 2020:

Director	Role	Fixed remuneration ^{1,2}	Variable remuneration ^{1,3}	Total remuneration ¹
Andrew Davies ⁴	Chief Executive	£613,000	£ -	£613,000
Bev Dew ⁵	Finance Director	£123,000	£1,000	£124,000
Simon Kesterton ^{4,6}	Chief Financial Officer	£413,000	£ -	£413,000
Claudio Veritiero ⁷	Chief Operating Officer	£183,000	£1,000	£184,000

¹ All amounts expressed before deductions for income tax and national insurance contributions and rounded to the nearest £1,000.

² Comprises base salary, taxable benefits and pension contributions. See page 113 for further details.

³ Comprises annual bonus, LTIP and share schemes. See page 113 for further details.

⁴ In response to COVID-19, Andrew Davies and Simon Kesterton agreed to take a 25% reduction in their base salaries for the three-month period from 1 April to 30 June 2020.

⁵ Bev Dew left the Board on 27 September 2019 and remained on garden leave from that date until 8 May 2020. The figures in the table are those paid to Mr. Dew in respect of the period 1 July 2019 to 27 September 2019. For details of the further payments which the Company agreed to make to Mr. Dew during the 2020 financial year, please see 'Payments to past Directors' on page 116.

⁶ Simon Kesterton joined the Board on 26 August 2019.

⁷ Claudio Veritiero left the Board on 15 November 2019 and his employment with the Company terminated on 19 November 2019. The figures in the table are those paid to Mr. Veritiero in respect of the period 1 July 2019 to 15 November 2019. For details of the payment in lieu of notice which the Company agreed to pay Mr. Veritiero, please see 'Payments to past Directors' on page 116.

Executive Directors' remuneration – 2021

The following table summarises the key elements of the Executive Directors' remuneration in 2021:

Element	Chief Executive	Chief Financial Officer
Base salary	£595,000	£484,500 ¹
Pension	7.5% of salary	
Bonus	125% of salary	
Bonus targets²	Will relate to profit, net debt, the Group's safety performance and personal objectives, with a maximum of 25% of the opportunity relating to the non-financial targets	
Deferred shares	One-third of any net bonus annual payment to be satisfied by an allocation of shares (legal ownership deferred for three years)	
LTIP quantum and performance conditions²	At the date of this Annual Report, the quantum of, and the performance conditions relating to, the LTIP awards to be granted in the 2021 financial year remain under consideration	
Holding period	Any vested LTIP shares must be held for two years after vesting (after payment of tax)	
Malus and clawback	<ul style="list-style-type: none"> › Clawback will apply to any cash bonuses paid and to the post-vesting holding period for any LTIP shares › Malus will apply to any deferred shares (in the three-year deferral period) and LTIP awards (prior to vesting) 	

¹ With effect from 1 October 2020.

² The actual bonus targets (and performance against them) and details of the LTIP awards will be disclosed in the 2021 Annual Report.

Directors' Remuneration Report

Directors' remuneration policy

Introduction

The Company's current remuneration policy, as set out in the 2017 Annual Report, received shareholder approval at the AGM in November 2017. The Company is therefore required to put a new remuneration policy to shareholders at the AGM on 17 December 2020. The new remuneration policy, which is set out on pages 105 to 112 (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.

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) Regulations 2008 (as amended) 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 (July 2018 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	Opportunity	Performance measures	Change to 2017 policy
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 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 To provide benefits which are competitive with the market	<p>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.</p> <p>Business-related expenses which are deemed to be taxable form part of the benefits provided.</p> <p>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.</p>	Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.	None.
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.	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.
Share Incentive Plan To encourage ownership of the Company's shares	<p>An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate.</p> <p>The plan allows employees to purchase shares out of pre-tax income.</p> <p>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.</p> <p>The plan trustees can reinvest cash dividends to acquire further shares on behalf of participants.</p>	<p>Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Company) at the time they are invited to participate.</p> <p>The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased, but may increase this to the prevailing limit approved by HMRC.</p>	None.	None.

Directors' Remuneration Report

Directors' remuneration policy (continued)

Future policy table (continued)

Element and link to strategy	Operation	Opportunity	Performance measures	Change to 2017 policy
Pension To provide a retirement benefit which is competitive with the market	Executive Directors participate in a defined contribution scheme.	<p>The maximum employer contributions for the Executive Director will be aligned with those made available to the workforce, being, at the date of this policy, 7.5% of pensionable salary.</p> <p>Executive Directors may elect to receive all or part of the employer contribution as a taxable cash supplement.</p>	None.	Alignment of maximum employer contributions for the Executive Directors with those made available to the workforce.
Annual bonus To reward the delivery of near-term performance targets and business strategy	<p>The Company operates a discretionary bonus scheme.</p> <p>Whether a bonus is awarded and the amount (if any) of bonus awarded will be determined at the Committee's discretion.</p> <p>Payments under the bonus scheme are based on an assessment of performance against targets over the year.</p> <p>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.</p> <p>Malus and, in the case of the cash element of a bonus, clawback will apply. See 'Malus and clawback' on page 108.</p>	<p>The maximum potential bonus for the Executive Directors in respect of the financial year ending 30 June 2021 is 125% of base salary.</p> <p>'Threshold' performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee each financial year.</p> <p>The level of bonus for achieving threshold performance varies by performance target, and may vary for a target from year to year, to ensure that it is aligned with the Committee's assessment of the degree of difficulty (or 'stretch') in achieving it.</p>	<p>The Committee determines the bonus targets and their relative weightings each year. The weighting towards non-financial targets will be no higher than 25% of the maximum potential bonus.</p> <p>The bonus targets for the 2021 financial year will relate to profit, net debt, the Group's safety performance and personal objectives.</p> <p>Actual bonus targets (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 relevant performance period.</p>	None.

Element and link to strategy	Operation	Opportunity	Performance measures	Change to 2017 policy
LTIP awards To reward the sustained strong performance by the Group over the longer-term	<p>Awards are granted annually and will typically vest, subject to the achievement of performance conditions, on the third anniversary of the date of grant. A two-year post-vesting holding period applies.</p> <p>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 108.</p> <p>Dividend equivalents may apply to awards.</p> <p>The awards are subject to the LTIP rules and the Committee may adjust or amend the awards only in accordance with the LTIP rules.</p> <p>The LTIP rules permit the Committee to exercise its discretion to modify any performance condition(s) when it deems it fair and reasonable to do so. Any use of Committee discretion with respect to modifying any performance condition(s) will be disclosed in the relevant Annual Report.</p> <p>The Committee may adjust the number of shares which will vest if, in its discretion, it determines that it would be appropriate to do so in order to override the formulaic outcome of any performance condition, taking into account such factors as it considers relevant, including but not limited to:</p> <ul style="list-style-type: none"> (i) the performance of the Company or of any member of the Group; (ii) the conduct or performance of a participant; and/or (iii) any circumstances or events which have occurred since the award was granted. 	<p>The maximum award is 200% of base salary.</p> <p>The Committee may grant awards of up to the maximum permitted 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.</p> <p>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.</p>	<p>Prior to granting an award, the Committee sets performance conditions which it considers to be appropriately stretching.</p> <p>In line with the awards granted in recent years, the performance conditions for the LTIP awards to be granted in the 2021 financial year are expected to relate to EPS growth and/or TSR outperformance and/or the Group's net debt:EBITDA performance over the performance period.</p> <p>The performance conditions relating to an award, and their respective weightings, will be disclosed in the Annual Report immediately following its grant.</p>	<p>Introduction of the Committee's discretion to override formulaic outcomes of awards. Please see 'Operation' for further details.</p> <p>Clarification that awards will typically vest on the third anniversary of their grant (rather than at the end of the performance period, as stated in the 2017 remuneration policy). Please see 'Operation' for further details.</p> <p>At the date of this Annual Report, and due to the factors referred to in the Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102, the level of, and the performance conditions for, the LTIP awards to be granted in the 2021 financial year remain under consideration. The Company will announce details of the awards in due course.</p>

Directors' Remuneration Report

Directors' remuneration policy (continued)

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, either (i) before this policy came into effect 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 or vesting of awards of variable remuneration (including LTIP awards) and, in relation to awards of shares, upon the terms which were agreed when the award was granted. Any such award or arrangement will be subject to their existing terms, provided that such terms were permitted by the remuneration policy in force at the date on which the relevant award or arrangement was made, granted or entered into (as the case may be).

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;
- Any action or omission on the part of the participant which resulted in or which could reasonably be expected to have resulted in material reputational damage to the Group;
- A participant's employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal; and
- Any other circumstances similar in nature to those set out above which the Company considers justifies the application of malus.

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

Clawback applies to (i) the cash element of the annual bonus and (ii) the two-year post-vesting holding period which applies to LTIP awards. The circumstances in which clawback apply are the same (or substantially the same) as for malus. The ways in which clawback may be effected are set out in the Company's bonus rules and the LTIP rules, as the case may be. They include requiring an individual to pay or repay cash to the Company, reducing the level of awards made to an individual and delaying the vesting of LTIP awards.

Executive Director shareholding guidelines

The Committee encourages Executive Directors to accumulate a shareholding in the Company of at least 200% of base salary over a period of up to five years. Executive Directors are therefore required to retain any shares allocated to them as part of the annual bonus plan and upon the vesting of LTIP awards until they reach this level of shareholding.

A post-employment shareholding requirement also applies, pursuant to which, for a period of two years after the date on which employment terminates, an Executive Director is required to retain shares in the Company allocated as part of the annual bonus plan and upon the vesting of LTIP awards which are equal in value to 200% of base salary (or, if the number of such shares owned at such date is less than such value, such shares then owned).

Selection of performance measures and approach to setting targets

The annual bonus targets are determined annually to reflect matters which the Committee considers to be areas of specific focus for the Executive Directors over the shorter-term. The Committee believes that using a number of targets provides a balanced incentive. The targets themselves are aligned to, and are designed to support the delivery of, the Group's strategic objectives.

The Committee sets performance conditions relating to the LTIP awards which are designed to align the interests of management and shareholders, incentivise management to deliver the Group's strategic objectives and reward performance over the longer-term.

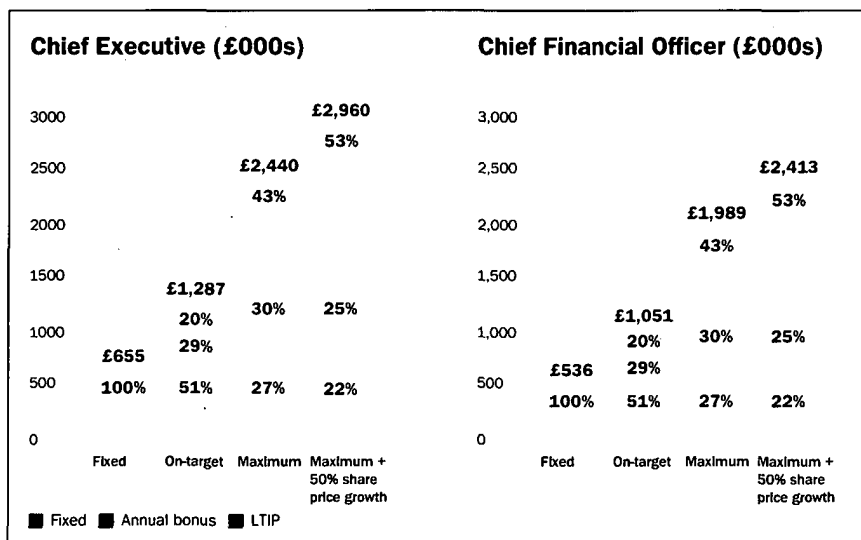
Targets for the annual bonus and performance conditions for the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points. The Committee intends that targets and measures will be stretching but achievable and will align management's interests with 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 targets 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 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 remuneration paid in or awarded for the year ending 30 June 2021.



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

- 'Fixed' remuneration comprises:
 - base salary;
 - the estimated value of taxable benefits to be provided in 2021; and
 - a pension contribution/cash allowance.
- A base salary of £484,500 for the Chief Financial Officer for the full 2021 financial year (although such salary will be effective from 1 October 2020).
- The 'on-target' remuneration assumes an annual bonus payment of 50% of the maximum opportunity and a 'threshold' LTIP vesting (25% of the maximum opportunity, which is assumed to be 175% of base salary).
- 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.
- The 'maximum +50% share price growth' assumes maximum performance is achieved and therefore the annual bonus pays out and the LTIP awards vest at their maximum levels and at a share price which is 50% higher than the share price on the date of grant.
- No value is assumed for share schemes.

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 employer pension contributions which are aligned with those available to the workforce, being, at the date of this policy, 7.5% 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.

Directors' Remuneration Report

Directors' remuneration policy (continued)

'Buy-out' awards	<p>The Committee may consider it appropriate to grant a 'buy-out' award (with respect to either a bonus or a share-based incentive scheme) using either an existing incentive scheme or arrangement or an alternative scheme or arrangement in order to facilitate recruitment. When doing so, the Committee may, to the extent required, implement an arrangement referred to in 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.</p> <p>When considering any performance conditions for any such award, the Committee will, where appropriate, take into account those used in the Company's existing 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.</p>
Legal fees	The Company may agree to pay the reasonable legal fees incurred by a new appointee for advice received in relation to his/her contract of employment or service agreement.

In determining an appropriate remuneration package for a new Executive Director, the Committee will take into consideration such factors as it considers to be appropriate 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)	<p>Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, pension contributions or allowance, car allowance and a sum representing the cost of private medical insurance. The Company may elect to provide private medical insurance and/or to allow an Executive Director to retain his or her company car through the notice period (or the balance of it) as an alternative to making cash payments.</p> <p>The Company is entitled to make the PILON on a phased basis, subject to mitigation, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.</p>
Change of control	There are no payments due upon a change of control, although deferred bonus shares would be released.
Other entitlements on termination	<p>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.</p> <p>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).</p>

The service agreements are available for inspection at the Company's registered office.

Payments for loss of office

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

Component	Approach
Annual bonus	<p>Individuals who are determined by the Committee to be 'good leavers' may be considered for an annual bonus in relation to the year in which their active employment ceases.</p> <p>When deciding whether to exercise its discretion to allow a payment in respect of an annual bonus (and, if so, its amount and the terms on which it may be paid), the Committee will consider such factors as it considers to be appropriate, including performance against bonus targets, the performance of the individual and the Group in general and the circumstances in which the individual is leaving office. Any payment to a 'good leaver' in respect of an annual bonus will typically be made at the same time as annual bonuses are paid to other employees. Clawback will continue to apply to the cash element of any payment made in respect of an annual bonus.</p> <p>Deferred shares allocated in part satisfaction of annual bonuses may be released upon cessation of employment if an individual is determined by the Committee to be 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 circumstances justifying summary dismissal).</p>
LTIP	<p>If an Executive Director ceases to be an employee or a director of a member of the Group for reasons of death, ill-health, injury, disability, redundancy (in relation to awards granted under the LTIP rules for which shareholder approval is sought at the Company's AGM in December 2020), retirement with the agreement of the Company, the sale or transfer of the business or part of the business of the Group in which the Executive Director is employed to a company which is not a member of the Group, his/her employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding LTIP awards will be retained. If an Executive Director ceases to be an employee or a director of the Group for any other reason, his/her outstanding LTIP awards will lapse on the date of such cessation.</p> <p>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. However, the Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis to the extent determined by the Committee, 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.</p> <p>Any vested shares are subject to the two-year post-vesting holding period, irrespective of the date on which they vest.</p> <p>Please see 'Change of control' below for the policy which applies in the event of a change of control of the Company.</p>
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	<p>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.</p> <p>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, tax advice and relocation costs. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.</p>
Change of control	<p>Deferred bonus shares will be released and, save as contemplated by the immediately following sentence, any outstanding LTIP awards will vest early to the extent determined by the Committee, 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; in such circumstances, no holding period will apply to the shares vesting and any holding period for previously vested LTIP awards will cease. Unless the Committee determines otherwise, if, following a change of control, the acquiring company has substantially the same shareholders and in approximately the same shareholdings as those of the Company prior to the change of control, the LTIP awards will be exchanged for equivalent awards over shares in the new holding company (and the holding period will continue to apply).</p> <p>Clawback will not apply to LTIP awards which vest as a result of a change in control or to any payments of cash bonuses made on a change of control. The rules of the SIP and the SAYE schemes will apply on a change of control.</p> <p>No payments are due under the Executive Directors' service agreements upon a change of control.</p>

Where appropriate, the Committee will oblige the individual to mitigate his/her losses and may offset any alternative remuneration received by the individual against any notice or PILON payments made by the Company.

In exercising discretion in respect of any of the elements referred to above, the Committee will take into account such factors as it considers to be appropriate. 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.

Directors' Remuneration Report

Directors' remuneration policy (continued)

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 surveys provide 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; for example, the Committee reviews the Group's latest gender pay gap information and, prior to setting the Executive Directors' remuneration, reviews detailed information relating to the workforce's remuneration. With respect to bonuses, the Committee encourages management to set targets which promote collaborative working practices across the Group so as to support the delivery of its strategy and promote its long-term sustainable success.

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. For example, when setting the 2020 remuneration policy, the Chair of the Remuneration Committee engaged with a number of major shareholders, whose feedback was reflected in the Committee's decision-making. Please see the Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102 for further information.

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.	None.	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 and any tax payable thereon.	None.	The reference to 'and any tax payable thereon' has been 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 which can be terminated by either party on one month's notice or, in the case of the Chairman, six months' notice. The letters of appointment do not include any provisions for the payment of pre-determined compensation upon termination of appointment and are available for inspection at the Company's registered office. The Non-Executive Directors are subject to annual re-election at the AGM.

Annual report on remuneration

Introduction

This section of the report sets out the annual report on remuneration for the 2020 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 referred to on page 114, the incentive awards made during the 2020 financial year referred to on page 115, the payments for loss of office referred to on page 116, the payments to past Directors referred to on page 116 and the statement of Directors' shareholdings and share interests set out on page 117.

Directors' remuneration for the 2020 financial year

The following table provides details of the Directors' remuneration for the 2020 financial year, together with their remuneration for the 2019 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

	Fixed pay								Variable pay								Total	
	Salary/fee ¹ (£000)		Taxable benefits ² (£000)		Pension (£000) ³		Total – fixed pay (£000)		Bonus (£000)		LTIP vesting (£000)		Share schemes (£000)		Total – variable pay (£000)		Total (£000)	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020 ⁴	2019 ⁵	2020 ⁴	2019	2020 ⁴	2019
Executive Directors																		
Andrew Davies	558	126	13	5	42	9	613	140	-	-	-	-	-	-	-	-	613	140
Bev Dew ⁶	100	402	3	12	20	80	123	494	-	-	-	-	1	1	1	1	124	495
Simon Kesterton ⁷	375	-	11	-	27	-	413	-	-	-	-	-	-	-	-	-	413	-
Claudio Veritiero ⁸	151	399	5	13	27	80	183	492	-	-	-	-	1	1	1	1	184	493
Non-Executive Directors																		
Justin Atkinson	58	62	-	-	-	-	58	62	-	-	-	-	-	-	-	-	58	62
Constance Baroudel ⁹	46	62	-	-	-	-	46	62	-	-	-	-	-	-	-	-	46	62
Kirsty Bashforth	58	58	-	-	-	-	58	58	-	-	-	-	-	-	-	-	58	58
Philip Cox ¹⁰	118	235	-	-	-	-	118	235	-	-	-	-	-	-	-	-	118	235
Matthew Lester ¹¹	106	-	-	-	-	-	106	-	-	-	-	-	-	-	-	-	106	-
Heather Rabbatts ¹²	13	-	-	-	-	-	13	-	-	-	-	-	-	-	-	-	13	-
Adam Walker ¹³	31	62	-	-	-	-	31	62	-	-	-	-	-	-	-	-	31	62
Clive Watson ¹⁴	13	-	-	-	-	-	13	-	-	-	-	-	-	-	-	-	13	-
Total	1,627	1,406	32	30	116	169	1,775	1,605	-	-	-	-	2	2	2	2	1,777	1,607

¹ In response to COVID-19, the Executive Directors agreed to take a 25% reduction in their base salaries and the Non-Executive Directors agreed to take a 20% reduction in their fees, in each case for the three-month period from 1 April to 30 June 2020. The Executive Directors' employer pension contributions or cash allowances were also reduced by 25% over the same period.

² Comprises private health insurance and a company car or a car allowance.

³ Comprises the payment of employer pension contributions and/or a cash allowance.

⁴ The value of the matching shares purchased during the 2020 financial year under the Share Incentive Plan (the SIP), using an average share price for matching shares purchased during the 2020 financial year of £1.01.

⁵ The value of the matching shares purchased during the 2019 financial year under the SIP, using an average share price for matching share purchases during the 2019 financial year of £6.19.

⁶ Bev Dew left the Board on 27 September 2019 and remained on garden leave from that date until 8 May 2020. The amounts referred to in the above table are those paid to Mr. Dew in respect of the period from 1 July 2019 to 27 September 2019. Details of the other payments made to Mr. Dew during the 2020 financial year are summarised under 'Payments to past Directors' on page 116.

⁷ Simon Kesterton joined the board on 26 August 2019.

⁸ Claudio Veritiero left the Board on 15 November 2019 and ceased to be an employee on 19 November 2019. The amounts referred to in the above table are those paid to Mr. Veritiero in respect of the period from 1 July 2019 to 15 November 2019. Details of the other payments made to Mr. Veritiero during the 2020 financial year are summarised under 'Payments to past Directors' on page 116.

⁹ Constance Baroudel left the Board on 29 March 2020.

¹⁰ Phillip Cox left the Board on 1 January 2020.

¹¹ Matthew Lester joined the Board on 1 January 2020.

¹² Heather Rabbatts joined the Board on 30 March 2020.

¹³ Adam Walker left the Board on 1 January 2020.

¹⁴ Clive Watson joined the Board on 30 March 2020.

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

Directors' Remuneration Report

Annual report on remuneration (continued)

Pension entitlements

The Executive Directors are eligible to participate in the Kier Retirement Savings Plan, a defined contribution plan. The contributions payable to the Executive Directors are subject to the annual allowance, with the balance being payable as a cash allowance. Cash allowances are subject to tax and national insurance deductions and are excluded when determining annual bonus and long-term incentive arrangements.

The pension contributions paid on behalf of, and the cash allowances paid to, the Executive Directors in respect of the 2020 financial year were:

Director	Employer pension contribution	Pension contribution	Cash allowance	Total
Andrew Davies ¹	7.5%	–	£41,836	£41,836
Bev Dew ²	20%	£2,500	£17,585	£20,085
Simon Kesterton ^{1,3}	7.5%	–	£27,198	£27,198
Claudio Veritiero ⁴	20%	£3,770	£23,447	£27,217

¹ In response to COVID-19, Andrew Davies and Simon Kesterton agreed to take a 25% reduction in their base salaries for the three-month period from 1 April to 30 June 2020, with a corresponding reduction in their cash allowances.

² For the period from 1 July 2019 to 27 September 2019. Please see 'Payments to past Directors' on page 116 for details of the other payments made to Mr. Dew in the 2020 financial year.

³ For the period from 26 August 2019 to 30 June 2020.

⁴ For the period from 1 July 2019 to 15 November 2019. Please see 'Payments to past Directors' on page 116 for details of the other payments made to Mr. Veritiero in the 2020 financial year.

Annual bonus – 2020 financial year

No bonus payments in respect of the 2020 financial year were made to the Executive Directors.

Performance against the 2020 bonus targets was as follows:

Financial performance (aggregate weighting: 80%)

Target	Opportunity	Threshold target	On target	Stretch target	Actual performance	Actual performance as a % of opportunity
Group profit	40%	£80m	£89m	£98m	£41.4m	–
Group year-end cash/net debt	40%	£(251)m	£(191)m	£(167)m	£(310.3)m	–

Non-financial performance (aggregate weighting: 20%)

Health and safety (maximum opportunity 10%)

Target	Opportunity	Range	Actual performance	Actual performance as a % of opportunity
Reduction in the Group's average AIR ¹	5%	10% reduction	+32%	–
Reduction in the Group's average AAIR ²	5%	10% reduction	+9%	–

¹ The target related to a reduction in the Group's AIR calculated on the average 12-month performance for the 2020 financial year.

² The target related to a reduction in the Group's AAIR calculated on the average 12-month performance for the 2020 financial year.

Personal objectives (maximum opportunity 10%)

The Committee agreed that the personal objectives for the Executive Directors would relate to, amongst other matters, the Group's cost reduction programme and the implementation of Performance Excellence. The Committee decided that, although good progress had been in respect of these objectives, no payment would be made in respect of the personal objectives element of the annual bonus.

LTIP awards – performance period ended 30 June 2020

The Company agreed that, upon the cessation of their employment, the LTIP awards granted to Haydn Mursell, Bew Dew and Claudio Veritiero in the 2018 financial year would lapse. The performance period for these awards ended on 30 June 2020.

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

Performance condition	Weighting	Targets	Actual performance	Level of vesting ¹
Compound EPS growth²	50%	0% vesting for below 5% p.a. 25% vesting for 5% p.a. 100% vesting for 13% p.a. Straight-line vesting between these points	- 52.2% p.a.	–
TSR outperformance³	25%	0% vesting for below index 25% vesting for performance in line with index 100% vesting for performance in line with index +10% p.a. Straight-line vesting between these points	- 59% p.a.	–
Net debt: EBITDA performance⁴	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 these points	5.10:1	–
Total				–

¹ Expressed as a percentage of the maximum opportunity.

² The number of shares used for the purposes of calculating EPS growth was adjusted to reflect the 2018 rights issue.

³ Against a peer group comprised a basket of 12 sector comparators at time of award: Balfour Beatty, Costain, Galliford Try, Henry Boot, Mears, Mitie, MJ Gleeson, Morgan Sindall, Renew Holdings and SEGRO (Carillion was removed from the group following it entering into liquidation and Interserve was removed from the group following it entering into administration).

⁴ After adjusting for the effects of the 2018 rights issue. Measured by reference to the average (mean) of (i) the Group's net debt/cash position as at 30 June 2018, 2019 and 2020 and (ii) the Group's EBITDA for each of the 2018, 2019 and 2020 financial years.

The first LTIP awards granted to Andrew Davies and Simon Kesterton are scheduled to vest in October 2022.

Incentive awards made during the 2020 financial year

The following incentive awards were made to those persons who, during the 2020 financial year, served as a Director:

Award	Basis of award	Director	Face value ³	Potential award for threshold performance	End of performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP	Percentage of base salary for the year ended 30 June 2020 ¹	Andrew Davies	£1,190,000	25% of face value	30 June 2022	28 October 2022	n/a	Awards are based 50% on EPS for financial year ending 30 June 2022, 25% on TSR performance against a comparator group and 25% on net debt : EBITDA
		Bev Dew	–					
		Simon Kesterton	£831,249					
		Claudio Veritiero ²	–					
Deferred shares	1/3 of the net bonus for the year ended 30 June 2019	Andrew Davies	–	n/a	n/a	n/a	n/a	n/a
		Bev Dew	–					
		Simon Kesterton	–					
		Claudio Veritiero	–					
SIP	Matching shares purchased in accordance with the SIP rules	Andrew Davies	–	n/a	n/a	n/a	n/a	Continued service condition
		Bev Dew	£215					
		Simon Kesterton	–					
		Claudio Veritiero	£279					

¹ The awards made to Andrew Davies, Simon Kesterton and Claudio Veritiero were for 200%, 175% and 150% of base salary respectively. No award was made to Bev Dew.

² The LTIP award granted to Claudio Veritiero had a face value of £602,549 and lapsed upon the termination of his employment.

³ For the LTIP awards, 'face value' is calculated using the market price of a share in the capital of the Company on 25 October 2019 of £1.16. For the SIP, 'face value' is calculated using the total number of shares bought on behalf of the relevant individuals during the 2020 financial year and an average share price for matching share purchases during the year of £1.01.

Directors' Remuneration Report

Annual report on remuneration (continued)

The performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2020 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 (28 October 2022).

Performance condition	Weighting	Targets
EPS growth¹	50%	0% vesting for below 33.0p 25% vesting for 33.0p 100% vesting for 46.7p Straight-line vesting between these points
TSR outperformance²	25%	0% vesting for performance below median constituent of comparator group 25% vesting for performance in line with median constituent of comparator group 100% vesting for performance 10% p.a. above the median constituent of comparator group Straight-line vesting between these points
Net debt: EBITDA performance³	25%	0% vesting for above 1.5:1 25% vesting for 1.5:1 62.5% vesting for 1:1 100% vesting for 0.5:1 Straight-line vesting between these points

¹ For the financial year ending 30 June 2022.

² The peer group comprises a basket of 10 sector comparators: Balfour Beatty, Costain, Galliford Try, Henry Boot, Mears, Mitie, MJ Gleeson, Morgan Sindall, Renew Holdings and SEGRO.

³ Measured by reference to the average (mean) of (i) the Group's net debt/cash position as at 30 June 2020, 2021 and 2022 and (ii) the Group's EBITDA for each of the 2020, 2021 and 2022 financial years.

Payments for loss of office

No payments were made for loss of office during the 2020 financial year.

Payments to past Directors

Details of payments made to Haydn Mursell during the 2020 financial year following the termination of his employment are set out on page 86 of the 2019 Annual Report.

Bev Dew ceased to be a Director on 27 September 2019 and remained on garden leave until 8 May 2020, during which period he remained entitled to his contractual remuneration. Mr. Dew was paid a total of £282,771.48 during this period, comprising aggregate basic salary payments of £235,281.43, aggregate pension allowance payments of £46,818.19 and a car allowance payment of £671.86. These figures reflect a 20% reduction in the amounts due to Mr. Dew over the period from 1 April to 8 May 2020 in line with reductions taken by members of senior management as a result of COVID-19. Mr. Dew remained entitled to use his company car or receive a car allowance during his period of garden leave.

Mr. Dew will not receive an annual bonus payment for the financial year ended 30 June 2020. His allocations of deferred shares with respect to bonuses paid in 2016, 2017 and 2018 are eligible to be released at the expiry of the respective three-year holding periods in 2019, 2020 and 2021 (subject, if appropriate, to any reduction for malus). Mr. Dew's LTIP awards granted in October 2016, October 2017 and October 2018 have lapsed.

No payments are expected to be made to Mr. Dew in the 2021 financial year.

Claudio Veritiero ceased to be a Director on 15 November 2019. The Company served 12 months' notice of termination of employment on Mr. Veritiero on 19 November 2019.

During the period from 19 November 2019 to 30 June 2020, Mr. Veritiero received a payment in lieu of notice (PILON) of £282,743.49, paid in instalments, comprising aggregate base salary payments of £226,992.38, aggregate pension allowance payments of £49,026.68 and aggregate car allowance payments of £6,724.43. These figures reflect a 20% reduction in the PILON due to Mr. Veritiero over the period from 1 April to 30 June 2020 in line with reductions taken by members of senior management as a result of COVID-19. Under his service agreement, Mr. Veritiero is obliged to use reasonable endeavours to obtain alternative employment. The remuneration received by Mr. Veritiero from any such alternative employment will be set-off against, and reduce, any outstanding instalments of the PILON.

In addition to the PILON, Mr. Veritiero received a statutory redundancy payment of £5,512.50 and a payment of £9,270.00 in respect of accrued, but untaken, holiday and will remain covered by the Company's private medical insurance until the earlier of the conclusion of the PILON period and the date on which he obtains alternative employment.

Mr. Veritiero will not receive an annual bonus payment for the financial years ending 30 June 2020 and 2021. His allocations of deferred shares with respect to bonuses paid in 2017 and 2018 are eligible to be released at the expiry of their respective three-year holding periods in 2020 and 2021 (subject, if appropriate, to any reduction for malus). Mr. Veritiero's LTIP awards granted in October 2017, October 2018 and October 2019 have lapsed.

The payments made during the 2021 financial year to Mr. Veritiero will be summarised in the 2021 Annual Report.

All payments referred to above are subject to deductions for tax and national insurance contributions.

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 Executive Directors are required to retain shares equal in value to 100% of base salary for a period of two years from the date on which employment is terminated (or if the number of shares owned at such date is less than such value, the shares then owned).

The following table sets out details, as at 30 June 2020 (or the date on which the relevant individual left the Board, as the case may be), 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 2020 financial year, served as a Director:

Director	Shares held				Options held		Shareholding guideline (% of salary)	Current shareholding (% of salary) ⁶	Guideline met?
	Owned outright or vested ¹	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			
Justin Atkinson	4,920	–	–	–	–	–	n/a	n/a	n/a
Kirsty Bashforth	3,351	–	–	–	–	–	n/a	n/a	n/a
Andrew Davies	29,294	–	1,027,633	–	–	–	200	4.80%	No
Simon Kesterton	29,195	–	717,832	–	–	–	200	6.00%	No
Matthew Lester	29,296	–	–	–	–	–	n/a	n/a	n/a
Heather Rabbatts	–	–	–	–	–	–	n/a	n/a	n/a
Clive Watson	–	–	–	–	–	–	n/a	n/a	n/a
Constance Baroudel ⁷	4,640	–	–	–	–	–	n/a	n/a	n/a
Philip Cox ⁷	8,300	–	–	–	–	–	n/a	n/a	n/a
Bev Dew ⁷	36,873	13,872 ⁸	–	562	–	–	n/a	n/a	n/a
Claudio Veritiero ⁷	62,805	9,065 ⁸	–	618	–	–	n/a	n/a	n/a
Adam Walker ⁷	7,567	–	–	–	–	–	n/a	n/a	n/a

¹ Comprising shares held legally or beneficially by the relevant Director or their connected persons (including partnership shares, dividend shares and matching shares purchased before 30 June 2017 (or the date that was three years prior to the date of leaving the Board, as the case may be) under the SIP – see 'Share Incentive Plan' on page 118).

² Comprising deferred shares allocated to the relevant Director in connection with annual bonuses. See 'Deferred shares' below.

³ Comprising unvested LTIP awards. All unvested LTIP awards granted to Bev Dew and Claudio Veritiero have lapsed.

⁴ Comprising matching shares purchased after 30 June 2017 (or the date that was three years prior to the date of leaving the Board, as the case may be) under the SIP. See 'Share Incentive Plan' on page 118.

⁵ Comprising options under the SAYE schemes. See 'Save As You Earn schemes' on page 118.

⁶ Calculated by reference to (i) shares owned outright or vested by the Director or his/her connected persons and (ii) deferred shares allocated in connection with annual bonuses, using the closing market price of a share in the capital of the Company on 30 June 2020 of £0.98, and (iii) the gross base salaries for the year ended 30 June 2020.

⁷ All figures are at the date of leaving the Board.

⁸ Comprising the deferred shares allocated to the relevant Director in connection with annual bonuses.

There have been no changes in the interests of the Directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2020.

Deferred shares

Those persons who, during the 2020 financial year, served as a Director beneficially owned, at 30 June 2020, 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	2018 award	2019 award	2020 award	Cumulative total 30 June 2020
Andrew Davies	–	–	–	–
Bev Dew	2,638	6,834	–	13,872 ¹
Simon Kesterton	–	–	–	–
Claudio Veritiero	2,686	6,379	–	9,065
Date of award	29 September 2017	1 October 2018	–	–
Share price used for award ²	1,149 pence	906 pence	–	–
End of holding period	29 September 2020	1 October 2021	–	–

¹ Includes the 2017 award of 4,400 shares.

² 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 28 September 2017 and 28 September 2018, respectively.

Directors' Remuneration Report

Annual report on remuneration (continued)

LTIP awards

Those persons who, during the year ended 30 June 2020, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2020:

Director	2018 award	2019 award	2020 award	Cumulative total 30 June 2019	Cumulative total 30 June 2020
Andrew Davies	–	–	1,027,633	–	1,027,633
Bev Dew ¹	–	–	–	–	–
Simon Kesterton	–	–	717,832	–	717,832
Claudio Veritiero ¹	–	–	–	162,170	–
Date of award	23 October 2017	22 October 2018	28 October 2019	–	–
Share price used for award ²	1,079 pence	895 pence	115.8 pence	–	–
End of performance period	30 June 2020	30 June 2021	30 June 2022	–	–

¹ Each LTIP award granted to Bev Dew and Claudio Veritiero has lapsed.

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

The performance conditions for the 2018 and 2019 awards are set out in the Annual Reports in respect of the years in which the awards were made. The performance conditions for the 2020 award are set out on page 116.

Share Incentive Plan

Those persons who, during the year ended 30 June 2020, served as a Director beneficially owned the following numbers of shares as a result of purchases under the SIP at 30 June 2020:

Director	Unrestricted shares	Partnership shares	Dividend shares	Matching shares (<3 years)	Matching shares (>3 years)	Cumulative total 30 June 2020
Andrew Davies	–	–	–	–	–	–
Bev Dew	–	2,598	168	1,163	136	4,065
Simon Kesterton	–	–	–	–	–	–
Claudio Veritiero ¹	–	–	–	–	–	–

¹ All shares were released to Claudio Veritiero during the 2020 financial year.

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'.

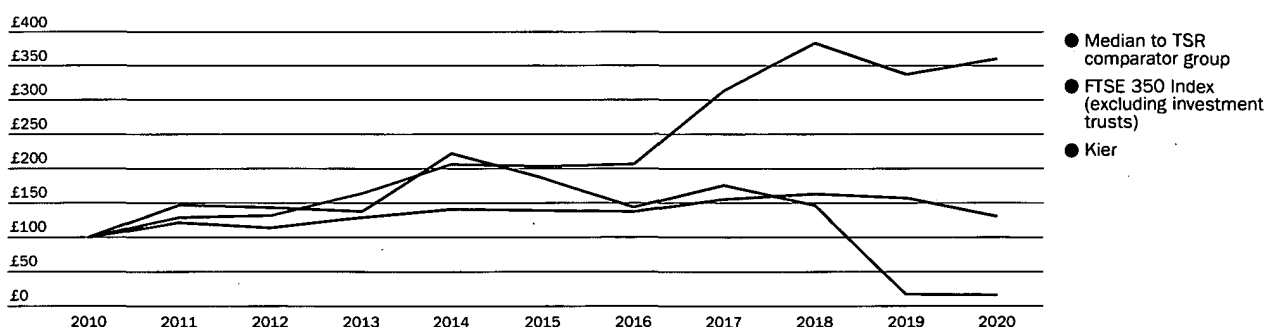
Matching shares which have been purchased within three years of the termination of an individual's employment may, depending on the circumstances of such termination, be forfeited. 'Unrestricted shares' are partnership, dividend and matching shares which were purchased more than five years from the relevant 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 2020 financial year' on page 115.

Save As You Earn schemes

No persons who, during the 2020 financial year, served as a Director had options under the Kier Group plc 2006 Sharesave Scheme and/or the Kier Group plc 2016 Sharesave Scheme at 30 June 2020.

Total shareholder return

The graph below shows the value, at 30 June 2020, of £100 invested in shares in the capital of the Company on 30 June 2010, compared with the value of £100 invested in (i) an index comprising those companies selected as the comparator group for the 2020 LTIP award (see page 116) 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 10-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 (%)
Paul Sheffield	2011	£753	69%	–
	2012	£1,273	75%	100%
	2013	£987	49%	31%
	2014	£1,099	68%	33%
Haydn Mursell	2015	£1,079	92%	–
	2016	£1,311	90%	34%
	2017	£1,199	48%	29%
	2018	£1,459	75%	24%
	2019 ²	£423	–	–
Andrew Davies	2019 ²	£140	–	–
	2020 ³	£613	–	–

¹ All figures are rounded to the nearest £1,000.

² Haydn Mursell stood down as Chief Executive on 22 January 2019 and Andrew Davies was appointed with effect from 15 April 2019.

³ In response to COVID-19, Andrew Davies agreed to take a 25% reduction in his base salary for the three-month period from 1 April to 30 June 2020.

Percentage change in Directors' remuneration

The table below shows the percentage changes in base salary or fees, taxable benefits and annual bonus of each Director in the 2020 financial year, as compared to the 2019 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 7,850 individuals across a number of levels) is considered to be the most appropriate group for comparison purposes, as its remuneration is controlled by the Group and is subject to similar external market forces as those that relate to the Executive Directors' remuneration. Approximately 700 employees are eligible to receive a bonus. The figures in the table reflect the temporary reductions in base salaries and fees which were taken in response to COVID-19.

Element of remuneration	Chief Executive ¹	Chief Financial Officer ²	Chairman	Non-Executive Directors	Other employees
Base salary/fee ³	- 8.5%	8.7%	- 4.6%	- 5%	2.35%
Taxable benefits ^{1,2}	- 19.1%	7.7%	n/a	n/a	11.35%
Annual bonus	- %	- %	n/a	n/a	- %

¹ In relation to the 2019 financial year, calculated by reference to Haydn Mursell's base salary and taxable benefits from 1 July 2018 to 22 January 2019, Haydn Mursell's base salary and taxable benefits from 23 January 2019 to 14 April 2019 (when he was on garden leave) and Andrew Davies's base salary and taxable benefits from 15 April 2019 to 30 June 2019.

² In relation to the 2020 financial year, calculated by reference to Bev Dew's base salary and taxable benefits from 1 July 2019 to 25 August 2019 and Simon Kesterton's base salary and taxable benefits from 26 August 2019.

³ Details of the fees paid to the Non-Executive Directors and the Chairman are set out in page 120.

Pay ratio of Chief Executive to average employee

The table below shows the ratio of the Chief Executive's total remuneration for the year ended 30 June 2020, using the information set out in the single total figure table on page 113, to the total remuneration of a lower quartile, median and upper quartile employee.

25 th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75 th percentile (Chief Executive: UK employees)
24:1	20:1	10:1

Further details of the remuneration of the Chief Executive in the 2020 financial year and those individuals whose remuneration in the 2020 financial year was at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

	Chief Executive	25 th percentile	Median	75 th percentile
Salary	£557,812	£24,970	£28,775	£51,301
Total remuneration	£612,257	£26,018	£30,943	£61,157

The median, lower and upper quartile figures used to determine the above ratios were calculated by reference to the full-time equivalent, annualised remuneration of the Group's UK-based employees (comprising salary, benefits, pension, annual bonus and share based and other incentives), based on the Group's gender pay gap data at April 2020, to determine 'best equivalents' in accordance with Option B in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The Committee selected this calculation methodology as it was considered to produce the most accurate and representative result.

The Committee considers that the median pay ratio for 2020 disclosed in the above table is consistent with the pay, reward and the progression opportunities available to UK-based employees across the business.

Directors' Remuneration Report

Annual report on remuneration (continued)

Relative importance of spend on pay

The graph below shows the percentage changes in the total employee remuneration and dividends paid between the 2019 and 2020 financial years:

Total employee remuneration (£m)		Dividend (£m)	
2020	-18.5%	707.1	2020 -100%
2019		868.1	2019 52.6

Employee remuneration is remuneration paid to or receivable by all employees of the Group (as stated in note 8 to the 2020 consolidated financial statements on page 164).

The dividend figures in the chart comprise any dividends paid in the 2019 and 2020 financial years (as stated in note 11 to the 2020 consolidated financial statements on page 173).

Implementation of the remuneration policy in 2021

Executive Directors' base salary

The base salaries of the Executive Directors for the 2021 financial year are as follows:

Director	From 1 July 2019 ¹	From 1 October 2020 ²	Percentage increase
Andrew Davies	£595,000	£595,000	- %
Simon Kesterton	£475,000 ³	£484,500	2%

¹ In response to COVID-19, Andrew Davies and Simon Kesterton each agreed to take a 25% reduction in their base salaries for the three-month period from 1 April to 30 June 2020.

² Salary increases across the Group will take effect from 1 October 2020, not 1 July (as was the case in previous years).

³ Payable with effect from his appointment to the Board on 26 August 2019.

Annual bonus

In the 2021 financial year, the maximum annual bonus opportunity for each of the Chief Executive and the Chief Financial Officer will be 125% of base salary.

The bonus targets will relate to profit, net debt, the Group's safety performance and personal objectives. The actual bonus targets and performance against them will be disclosed in the 2021 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

At the date of this Annual Report, the quantum of, and performance conditions relating to, the LTIP awards to be granted in the 2021 financial year remain under consideration.

Pension and taxable benefits

The pension contributions or cash allowances payable on behalf of or to the Executive Directors in the 2021 financial year are:

Executive Director	Percentage of salary
Andrew Davies	7.5%
Simon Kesterton	7.5%

The Executive Directors will also continue to receive private health insurance and either a company car or a car allowance, which will be £13,900 per annum (2020: £11,900).

Non-Executive Directors' fees

There will be no increase in the fees payable to the Non-Executive Directors for the 2021 financial year. The total fees payable to the Non-Executive Directors with effect from 1 July 2020 are as follows:

Director	Base fee	Chair of Board committee fee	Senior Independent Director fee	Total fee
Justin Atkinson	£51,500	-	£10,000	£61,500
Kirsty Bashforth	£51,500	£10,000	-	£61,500
Matthew Lester ¹	£235,000	-	-	£235,000
Heather Rabbatts	£51,500	£10,000	-	£61,500
Clive Watson	£51,500	£10,000	-	£61,500

¹ Matthew Lester does not receive a fee for his work as the Chair of the Nomination Committee.

The Remuneration Committee

Membership and meeting attendance

The names of the members of the Committee are set out on page 101, together with an indication of the Committee's principal activities during the 2020 financial year. The Chief Executive (Andrew Davies) and the Group HR Director (Helen Redfern) are invited to attend Committee meetings. No individuals are involved in decisions relating to their own remuneration. Details of the Committee's meetings during the year are set out on page 82. 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 – 2020 financial year

The Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102 provides a summary of the Committee's principal activities during the year.

When taking its decisions during the year, and setting the new remuneration policy which shareholders will be asked to approve at the forthcoming AGM, the Committee took into account the following factors:

- Clarity and simplicity: the Group's remuneration arrangements are clearly communicated to shareholders and the workforce, for example, through this Directors' Remuneration Report and the engagement process with shareholders;
- Risk: the Committee notes the reputational and other risks that may result from excessive rewards. The Committee has the discretion to adjust annual bonus payments and vesting levels of LTIPs to address this issue;
- Predictability and proportionality: the Committee has provided an indication of the levels of remuneration that the Executive Directors may receive in certain scenarios in this Directors' Remuneration Report. The Committee has discretion in relation to variable remuneration to ensure that rewards reflect the long-term performance of the Group; and
- Alignment to culture: when setting remuneration, the Committee has sought to encourage behaviours from management which it would expect to see throughout the Group and which are consistent with the Group's purposes, values and strategy.

Committee performance evaluation

2019 evaluation – progress made

During the 2019 Board evaluation, members of the Committee identified the following areas of focus for the 2020 financial year:

- Aligning remuneration with the Group's strategic objectives;
- As part of the policy review, considering ways to reduce any complexity in the Group's remuneration arrangements; and
- Continuing to link remuneration practices within the wider Group to executive remuneration.

Please see the Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102 for details of progress made in relation to each of these areas of focus.

Area of focus for the Committee in 2021

The Board has agreed that the Committee's principal area of focus in the 2021 financial year would be to continue to set executive remuneration at levels which align management's interests with those of shareholders, noting the challenging and highly unusual circumstances in which the Group is operating. Please see the Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102 for steps taken, or to be taken, by the Committee in this respect.

Advisers

The Committee received advice from Deloitte during the year up to 15 February 2020. Fees of £19,300 (excluding VAT) were payable in respect of Deloitte's services as remuneration advisers during this period. Deloitte is a signatory to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group. During the year, Deloitte also provided financial advisory services and employment taxes advice. There are no connections between Deloitte and either the Company or any of the Directors. The Committee was satisfied that the advice it receives from Deloitte is objective and independent. The Committee also receives support from the Company Secretary (Hugh Raven) and the Group HR Director (Helen Redfern).

Shareholder voting

The Directors' Remuneration Report was subject to a shareholder vote at the 2019 AGM. The results of the vote on the resolution were:

Votes for ¹	Percentage votes for	Votes against ²	Percentage votes against	Votes withheld
33,806,403	46.12%	39,493,627	53.88%	880,462

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

² Does not include votes withheld.

The remuneration policy was subject to a shareholder vote at the 2017 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
45,132,928	90.28%	4,860,934	9.72%	7,311,115

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

² Does not include votes withheld.

The Committee engaged with shareholders to understand the reasons for the significant vote against the Directors' Remuneration Report at the 2019 AGM. Please see the Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102 for further information.

Directors' Report

Introduction

This Directors' Report and the Strategic Report on pages 1 to 71 (inclusive) together comprise the 'management report' for the purposes of Disclosure Guidance 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 into this Directors' Report by reference:

Information	Reported in	Pages
Corporate governance	Corporate Governance Statement Statement of Directors' responsibilities	72 to 100 (inclusive) 125
Directors	Board of Directors Directors' Remuneration Report – 'Directors' shareholdings and share interests'	84 and 85 117
Employee engagement	Sustainability Board leadership and company purpose	48 to 50 (inclusive) 77 to 79 (inclusive)
Employment of disabled persons	Sustainability	49
Engagement with suppliers, customers and others	Sustainability Board leadership and company purpose	54 77 to 79 (inclusive)
Financial instruments	Financial statements – note 30	197 to 201 (inclusive)
Going concern	Board statements	76
Greenhouse gas emissions	Sustainability	44
Important events since the end of the financial year	Chief Executive's review	6 to 9 (inclusive)
Likely future developments	Chief Executive's review	11
Results and dividends	Financial review	71

Disclosures required under Listing Rule 9.8.4R

The table below sets out the location of information required to be disclosed under Listing Rule 9.8.4R, where applicable.

Information required to be disclosed	Page(s)
(1) Amount of interest capitalised	n/a
(2) Publication of unaudited financial information	n/a
(4) Long-term incentive schemes	n/a
(5) – (11) Miscellaneous	n/a
(12) – (13) Waiver of dividends	123
(14) Agreement with controlling shareholders	n/a

Political donations

The Company made no political donations during the year (2019: nil).

Research and development

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

Share capital

As at 30 June 2020, the issued share capital of the Company consisted of 162,115,870 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 notes 27 and 28 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

The table below sets out the interests in the share capital of the Company (being voting rights over such share capital), which have been notified to the Company as at 24 September 2020 pursuant to Rule 5.1 of the Disclosure Guidance and Transparency Rules.

The information in the table below is based on the latest notifications that have been made to the Company by the relevant shareholders; accordingly, it may not accurately represent the actual interests of the relevant shareholders in the share capital of the Company at the date of this Annual Report.

Shareholder	Disclosed Interest ¹
Woodford Investment Management Limited	14.12%
Standard Life Aberdeen plc	12.35%
M&G Plc	9.93%
BlackRock, Inc	5.85%
Aviva plc	5.29%
Brewin Dolphin Limited	5.01%
Charles Stanley Group plc	5.00%
Rathbone Investment Management Limited	4.93%
Schroders plc	4.75%
Norges Bank	3.03%

¹ Subject to rounding.

Securities carrying special rights

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

Rights under employee share schemes

As at 30 June 2020, RBC cees Trustee Limited, as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 67,513 shares (approximately 0.04% of the Company's issued share capital at that date). These shares are made available to satisfy share-based awards granted to senior management under the Group's remuneration arrangements.

As at 30 June 2020, Yorkshire Building Society (YBS) held 3,991,778 shares (approximately 2.46% of the Company's issued share capital at that date) on trust for the benefit of members of the SIP. At the same date, YBS also held 7,717 shares (approximately 0.005% of the issued share capital at that date) 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 2020, 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 0.15% of the Company's issued share capital at that date). These shares are made available to satisfy awards of shares under the Group's remuneration arrangements. Neither of the trustees exercises any voting rights in respect of shares held by its 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, other than Kirsty Bashforth, will stand for election or re-election by shareholders at the 2020 AGM. Further information about the Directors' skills and experience can be found on pages 84 and 85.

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.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Articles and the Company maintains directors' and officers' liability insurance for the benefit of the Directors and the Company's officers. The Company and Kier Limited have also entered into qualifying third party indemnity arrangements with each of their directors in a form and scope which comply with the Companies Act 2006. Each of these arrangements remain in force as at the date of this Annual Report.

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 15 November 2019 to allot shares in the Company (i) up to an aggregate nominal amount of £540,386 and (ii) up to an aggregate nominal amount of £1,080,772 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 £81,507 and (ii) for the purposes of financing an acquisition or other capital investment up to a further nominal amount of £81,507.

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. The Articles do not contain any such prohibition and the Company does not propose to seek such authority at the 2020 AGM.

Change of control

The Group's loan facility agreements with its UK lending banks, the note purchase agreements relating to the Group's US private placements of notes and the Group's Schuldschein loan agreements 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 awards or options 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

The branches through which the Group operates are listed in note 34 to the consolidated financial statements.

Auditors

The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditors for the financial year ending 30 June 2021. A resolution relating to this re-appointment will be proposed at the forthcoming AGM.

AGM

The Company's 2020 AGM is scheduled to be held on 17 December 2020. The Notice of AGM, which will confirm the date, time and location of the meeting, will be issued in due course.

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



HUGH RAVEN

Company Secretary

25 September 2020

81 Fountain Street
Manchester M2 2EE

Type text here

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 Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Frameworks', 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 Group and Company and of the profit or loss of the Group and 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 IFRSs as adopted by the European Union have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101, have been followed for the Company financial statements, 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 Group and Company will continue in business.

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

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

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 Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Annual Report confirm that, to the best of their knowledge:

- the Company financial statements, which have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law), give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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

- so far as the Director is aware, there is no relevant audit information of which the Group and 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 Group and Company's auditors are aware of that information.

Signed on behalf of the Board by:



ANDREW DAVIES
Chief Executive



SIMON KESTERTON
Chief Financial Officer

25 September 2020

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 2020 and of the Group's loss and cash flows for the year then ended;
- › the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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 and Company balance sheets as at 30 June 2020; the Consolidated income statement and Consolidated statement of comprehensive income, the Consolidated cash flow statement, and the Consolidated and Company statements 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.

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

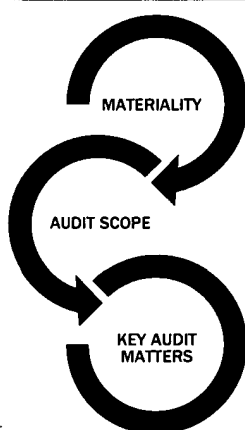
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities 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 note 4 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 July 2019 to 30 June 2020.

Our audit approach

Overview



- › Overall Group materiality: £9.1 million (2019: £6.2 million), based on a 3 year average of 5% of the statutory result before tax from continuing operations.
- › Overall Company materiality: £8.1 million (2019: £4.9 million), based on 1% of total assets limited by the allocation of component materiality.
- › We have conducted audit work across all three of the Group's divisions and achieved coverage over 91% (2019: 94%) of Group revenues.
- › Going concern (Group)
- › Contract accounting (Group)
- › Presentation of the Group's financial performance (Group)
- › Impairment of goodwill (Group)
- › Carrying value of land and development inventory (Group)
- › Covid-19 (Group)
- › Carrying value of investment in Kier Limited (Company)

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.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK pensions, employment and tax legislation, data protection rules, the Health and Safety Executive legislation and equivalent local laws and regulations applicable to overseas operations. We considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006, the UK Corporate Governance Code and UK Listing Rules. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to fraudulent financial reporting and management bias in accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included, but were not limited to:

- › Discussions with management and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- › Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- › Reading key correspondence with external legal advisors;
- › Review of external press releases;
- › Challenging assumptions and judgements made by management in their significant accounting estimates; and
- › Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unusual words and unusual users.

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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.

Financial Statements

Independent auditor's report to the members of Kier Group plc (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Going concern (Group)</p> <p>Refer to page 96 (Risk Management and Audit Committee Report) and page 142 (accounting policy).</p> <p>At 30 June 2020, the Group had £892 million of unsecured committed facilities, £20 million of uncommitted overdrafts and c£125 million drawn against uncommitted supply chain financing facilities. In order to provide financial flexibility for the Group following Covid-19, the Group has:</p> <ul style="list-style-type: none"> Agreed waivers with its lenders in respect of the Group's financial covenants for the test period ended 30 June 2020; Agreed a relaxation of the covenant tests arising through the going concern period; and Agreed with pension trustees a material reduction in the deficit repayments in the short-term. <p>In return for these waivers and amendments to the covenants the Group has agreed to month-end minimum liquidity tests.</p> <p>We determined the audit risk of going concern to be significant, in particular on the basis of the impact that Covid-19 has had on the Group's operations to date.</p> <p>The Group's short-term cash flow forecasts to 31 December 2021 ('the going concern period'), which are included in the Group's three year strategic plan, have been reviewed by the Board. These are prepared based on certain key assumptions, against which a number of severe but plausible downside sensitivities have been applied. These included consideration of the potential impact on the Group's working capital and projected covenant compliance of reductions in trading volumes, margin erosion and project specific risks over the forecast period. These also reflected a scenario of a second Covid-19 national lockdown during the forecast period.</p> <p>These forecasts show that the Group is at all times within its liquidity limits, and also demonstrate compliance with the Group's covenants over the forecast period.</p>	<p>We evaluated the Directors' going concern assessment and in particular, with the support of internal industry experts in this area, performed the following procedures:</p> <ul style="list-style-type: none"> We assessed the appropriateness of the cash flow forecasts in the context of the Group's 2020 financial position, the planned sales of, and/or exit from, a number of non-core businesses and evaluated the Directors' downside sensitivities against these forecasts; We evaluated the key assumptions in the forecasts and considered whether these were supported by the evidence we obtained, for example by comparing forecast sales growth to levels of future revenue that has been secured and is still to be obtained; We tested a sample of contracts in the Group's pipeline to provide evidence over the security of the associated revenue over the forecast period; We obtained and evaluated the Company's Brexit and Covid-19 impact assessments and considered whether these were appropriately reflected in the going concern model; We examined the minimum committed facility headroom under the base case cash flow forecasts, as well as the Directors' and our own sensitised cases, and evaluated whether the Directors' conclusion that liquidity headroom remained in all events was supported by the evidence we obtained; We obtained the signed lender covenant reset agreements and checked that both the reset levels and the treatment of earnings for covenant purposes were consistent with management's covenant calculations; We obtained a signed agreement with HMRC confirming the deferral of VAT and PAYE, under a Time To Pay arrangement that lasts until June 2021; We obtained and reperformed the Group's forecast covenant compliance calculations, including sensitising the profits and cash flows as applicable for each covenant to assess the potential impact of our downside sensitivities on covenant compliance; We considered the risk to the Group's cash flows and covenant compliance in the event that the Group's uncommitted supply chain finance facilities were no longer available and that the planned sales and exits of certain businesses either did not take place or were significantly delayed; and We evaluated the extent to which measures to manage the Group's working capital could be applied in the event required, based on its track record of applying such measures when needed and also considering the ability to do so in the future, particularly in the event of a second Covid-19 national lockdown. <p>We also reviewed the disclosures provided relating to the going concern basis of preparation, and found that these provided an explanation of the Directors' assessment that was consistent with the evidence we obtained.</p> <p>Our conclusions on going concern are set out in the "Going concern" section on page 134.</p>

Key audit matter

Contract accounting (Group)

Refer to page 96 (Risk Management and Audit Committee Report) and page 144 (Accounting policy).

The Group has significant long-term contracts in its Infrastructure Services and Construction businesses. The recognition of revenue in respect of construction contracts in accordance with IFRS 15 is based on the stage of completion of contract activity.

Profit on contracts is a significant risk for our audit because of the uncertainty inherent 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.

The Group operates in an industry in which contracts allow a route to recovery that may be disputed or become subject to contract resolution procedures. The settlement process can be time consuming and can result in an outcome that varies from the amount claimed. These contract issues may exist in the supply chain, or with customers.

In addition, 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.

These estimates 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.

The Group's accounting policy is to recognise additional contractual amounts receivable from customers only when these amounts are considered highly probable of no significant reversal. Claims receivable from third parties (other than the Group's customers) are recognised only when they are determined to be 'virtually certain' of recoverability.

How our audit addressed the key audit matter

We focused our work on those contracts with the greatest estimation uncertainty over the final contract values and therefore profit outcome. Our work included the following procedures:

- We challenged management's forecasts, in particular debating the appropriateness of the key assumptions, which included the expected recovery of variations, claims and compensation events from clients, to determine the basis on which the associated revenue was considered to be 'highly probable of not reversing';
- We also challenged those assumptions in respect of estimated recoveries from subcontractors, designers, and insurers included in the forecast, to determine whether these could be considered 'virtually certain' of recoverability;
- We attended contract review meetings via conference calls, and inspected minutes of meetings that considered value cost reconciliations ('VCRs') in order to obtain evidence regarding the satisfactory operation of controls over contracts in place;
- We substantively tested a sample of costs incurred to date to check that these had been recorded accurately;
- We confirmed that where incremental costs had been incurred in respect of Covid-19, that these costs had been appropriately considered in the end of life forecasts ('ELFs');
- We performed a margin analysis on the ELFs to assess the performance of the contract portfolios year on year;
- 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 considered whether any significant write-offs of WIP during the year should have been accounted for as a prior year adjustment. We obtained evidence in respect of a sample of contracts which demonstrated that the write-offs were driven by events during the 2020 financial year, including the significant strategic restructuring changes in UK Build and the impact of Covid-19 on the Group and certain of its customers;
- We discussed the status of certain other third party claims with external solicitors and, where relevant, external experts, and assessed the objectivity and independence of these third parties;
- We inspected correspondence with insurers relating to recognised insurance claims as well as assessments of these undertaken by the insurers and Group's external solicitors, where applicable, to assess whether this information supported the position taken on the contract; and
- We considered the adequacy of the disclosures in the financial statements in relation to specific contracts and also the disclosures in respect of significant judgements and estimates.

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
<p>Presentation of the Group's financial performance (Group)</p> <p>Refer to page 96 (Risk Management and Audit Committee Report) and page 145 (accounting policy).</p> <p>The Directors have revised the Group's principal Alternative Performance Measure to 'Adjusted operating profit' so as to make the Group's APM consistent with how the Group's management are now reviewing the performance of the business.</p> <p>The Group's adjusted profit from operations of £41.4 million is stated after charging:</p> <ul style="list-style-type: none"> £23.7 million of amortisation of acquired intangibles; £5.0 million of costs associated with previous acquisitions; £156.1 million of restructuring and related charges; £33.6 million of costs associated with the preparation for business divestment or closure; and £18.6 million of other adjusting items. <p>The Group has separately identified £45.3 million of direct costs that have been incurred as a result of Covid-19. These costs have been presented separately, as set out in Note 6 and have not been treated as adjusting items for the purposes of determining adjusted operating profit. Our work in respect of these costs is set out in the Covid-19 Key Audit Matter below.</p> <p>The determination of which items are treated as 'adjusting' is judgmental and needs to be consistent with how the Directors review the segmental performance of the business. Users of the financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistent with the way in which the Board is reviewing segmental performance.</p>	<p>We considered whether the presentation of adjusted operating profit is appropriate. In doing this we performed the following procedures:</p> <ul style="list-style-type: none"> We obtained the latest internal Board reporting to evaluate whether the nature and quantum of the adjustments presented, for the Group and in respect of the segments, was consistent with those highlighted and adjusted in the financial statements; We reviewed the definition and classification of adjusting items in the Group's Annual Report, including the sub-categorisation of these items. In particular, we challenged whether it was appropriate to present certain costs within the Regional Southern Build business as restructuring and related charges, on the basis that they related to contract and tender positions. We accepted this judgement on the basis of the overall quantum of the charges (£61.5 million) and due to the fact that the costs were a result of management's strategic decision to exit the regional business at a time when the Group and its customers were being significantly impacted by Covid-19; We tested the accuracy and completeness of adjusting items, including assessing whether any items previously recorded as exceptional in the Group's financial statements should be treated as adjusting now, and vice versa. We were satisfied that there were no material changes required to the 2019 comparatives as a result of this amended policy; and We reviewed management's disclosures on the change in the primary measure for adjusted profit and ensured that the updated measure was not given undue prominence in the Annual Report. We also ensured that sufficient disclosure was provided to justify why individual items were treated as adjusting. <p>We did not identify any material issues in our work over those items presented as adjusting, although we identified a small number of items, which were immaterial individually and in aggregate, that in our view should not have been treated as adjusting in nature.</p> <p>Overall based on these procedures we were satisfied with the presentation of the Group's profit before adjusting items, and that the reason for its use has been properly disclosed.</p> <p>We also ensured that there was appropriate balance in the Group's Annual Report between references to the adjusted profit and the Group's statutory loss for the year.</p>

Key audit matter

How our audit addressed the key audit matter

Impairment of goodwill (Group)

Refer to page 96 (Risk Management and Audit Committee Report) and page 146 (accounting policy).

The Group carried £536.7 million of goodwill at 30 June 2020 (2019: £536.7 million). £516.3 million of the Group's £536.7 million goodwill relates to Infrastructure Services and £20.4m relates to Construction.

The audit of goodwill was a focus area given the value of these assets when compared to a market capitalisation of under £100 million, and a deterioration in trading conditions during the financial year due in particular to Covid-19.

We determined there to be a significant audit risk that the carrying value of goodwill allocated to Infrastructure Services may not be supportable when compared to its recoverable amount, given headroom of £32.6 million in the Directors' impairment assessment.

In evaluating the Directors' annual impairment assessment for goodwill in respect of Infrastructure Services, we performed the following procedures:

- We assessed the allocation of goodwill and acquired intangibles to Cash Generating Units (CGUs), in particular following a change during the year as a result of the Group's reorganisation from 1 July 2019, and assessed the Directors' conclusion that the significant majority of goodwill related to Infrastructure Services;
- We evaluated the allocation of corporate assets to the CGUs and assessed whether this was a reasonable basis for allocation;
- We obtained the Board-approved three year cash flow forecasts which formed the basis of the model used in the Directors' impairment calculation. We considered whether the planned growth rates and expected operating margins in the impairment model were consistent with the Board-approved cash flows;
- We tested certain contracts in the Group's pipeline to provide evidence of the associated revenue forecast in the cash flow model;
- We challenged management's forecasts and compared future cash flow performance to historic levels as part of our assessment as to whether the planned performance was considered achievable;
- We challenged the assumption within the forecast that the business's cash flows would be earned into perpetuity;
- We tested the discount rate and long term growth rate applied with the support of our internal valuation experts; and
- We sensitised the short term and long term growth rates applied to revenue and operating profit and established what reasonably possible changes in these assumptions would lead to an impairment; we then ensured that these changes were appropriately disclosed in accordance with IAS 36, 'Impairment of assets'.

Based on the procedures performed, we were satisfied with the carrying value of Infrastructure Services goodwill, and with the associated disclosures included in the financial statements.

Carrying value of land and property development inventory (Group)

Refer to page 96 (Risk Management and Audit Committee report), page 147 (accounting policy).

Inventory in the Property Development and Living businesses, in the Group's Non-core division, 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/development costs (by reference to current prices), which may require significant judgement.

In particular, we considered there to be a significant risk in respect of the Group's £45.2 million of commercial property development sites, for which forecast margins had in certain instances reduced year on year as a result of the change in market conditions arising due to Covid-19.

We considered that the deterioration in market conditions increased the risk of impairment of the property development inventory at 30 June 2020.

Furthermore, a strategic decision to exit certain sectors and regional offices resulted in an impairment of assets at seven sites of £19.8 million (£10.4 million of which was recorded within the Group's joint ventures).

The property portfolio was subject to a full external valuation by management's expert, CBRE.

We obtained the Directors' assessment of the recoverability of the property portfolio, based on the external valuation exercise performed, and performed the following procedures:

- We discussed with management and evaluated the reasons for significant changes in cost and sales assumptions in the site appraisals compared to the previous year;
- We compared the valuations in the Directors' assessment to external valuations of each site, and evaluated the independence and competence of the external valuers;
- We discussed the results of the valuation with management's valuers, as well as our internal experts, and obtained and reviewed the information provided to the valuers to check this was consistent with our own understanding of each site; and
- We assessed the methodology and key assumptions in these valuations with the support of our internal real estate valuation experts.

Based on the evidence obtained, we were satisfied with the calculation of the impairment charge of £19.8 million associated with the strategic exit of certain sectors and regional offices. We were also satisfied that there were no other impairments of inventory required in the Property Development business.

Key audit matter	How our audit addressed the key audit matter
<p>Covid-19 (Group)</p> <p>The Covid-19 pandemic has had a significant impact on the performance of the Group during FY20, with the severity of the impact varying across the Group's divisions. As a result, the pandemic has brought increased estimation uncertainty to certain areas of the financial statements.</p> <p>The key areas of the financial statements most impacted by the increased estimation uncertainty are described below:</p> <ul style="list-style-type: none"> i) The Directors have carefully considered the appropriateness of the going concern basis of preparation in the Group's financial statements, including assessing the impact of a potential second Covid-19 national lockdown during the forecast period; ii) Covid-19 has had a significant impact on the Group's ability to execute long term contracts, and it has incurred significant additional costs in doing so, particularly as a result of the new requirements for personal protective equipment and on-site social distancing guidelines. To the extent that these incremental costs are considered to be part of the cost of delivering a contract, they should be factored into the end of life forecast ('ELF') and not expensed to the Income Statement. Covid-19 has also had a severe impact on many of the Group's private sector customers and in some cases has impacted the Group's ability to recover costs of contract variations from customers, that in normal circumstances it would have been able to recover; iii) The Group plans to execute the sale of the Living division which is currently classified as held for sale. In holding the business for sale on the Group's Balance Sheet, management assumes the sale is highly probable within the next 12 months. The uncertainty caused by Covid-19 risks further delays to the sale process, as well as to the valuation ascribed to the business. iv) The Group has £536.7 million of goodwill as at 30 June 2020. Given the impact of the pandemic on the Group's trading results to date, there is a risk that further disruption caused by Covid-19 (including a potential further national lockdown) could materially reduce the value in use of the Infrastructure Services CGU, against which £516.3m of the Group's goodwill is allocated. v) A £92.3 million deferred tax asset is held on the Group's Balance Sheet in respect of carried forward tax losses. These losses have largely been recorded in the previous two financial years, in part because of the impact of Covid-19. There is a risk that in the event that taxable future profits fall below those forecast by management, there would be insufficient profits against which to utilise these losses. vi) As set out in Note 6 to the financial statements, the Group incurred £45.3 million of costs associated with Covid-19. These included a £10.0 million holiday pay accrual, as a result of the Group amending its holiday policy to allow employees to carry forward more holiday, together with £35.3m of other direct costs which include mobilisation and demobilisation costs, personal protective equipment and property revaluations/impairments. vii) Following the emergence of Covid-19 in the UK, the Group accessed HMRC's Coronavirus Job Retention Scheme ('CJRS'), claiming £9.0 million of compensation in respect of UK employee wages over the period from March to June 2020. This has been disclosed in Note 6 in accordance with IAS 20, 'Accounting for government grants and disclosure of government assistance'. <p>In addition, management's ways of working, including the operation of controls, has been impacted as a result of a large number of staff having to work remotely. This has resulted in an increase in risk due to the remote accessing of IT systems and a potentially heightened cyber risk.</p>	<p>In response to the key areas identified as being significantly impacted by Covid-19, we performed the following procedures:</p> <ul style="list-style-type: none"> i) Refer to our Key Audit Matter above for details of how we considered the impact of Covid-19 in our audit procedures over going concern; ii) Refer to our Key Audit Matter above for details of how we considered the impact of Covid-19 in our procedures over contract accounting; iii) We obtained and reviewed management's accounting paper in respect of the treatment of the Kier Living business. We inspected relevant and recent correspondence with interested parties which supported management's assessment that a sale is highly probable in the next 12 months. We also reviewed an external valuation of the business which supported the Group's estimate of fair value less costs to sell. We were therefore satisfied with the accounting for Kier Living. iv) Refer to our Key Audit Matter above for details of how we considered the impact of Covid-19 in our procedures over impairment of goodwill and intangible assets; v) We reviewed the cash flow forecasts underpinning management's assessment of the future taxable profits against which tax losses could be utilised. These forecasts were consistent with those used in the goodwill model. We were satisfied that, based on these forecasts and downside sensitivities applied to these forecasts, there are sufficient future taxable profits expected to be available to utilise these tax losses, and therefore that the recognition of the deferred tax asset is supportable. vi) We considered the presentation of Covid-19 costs set out in Note 6 and tested a sample of these costs in order to confirm that they were attributable to the pandemic. As part of this work, we tested the calculation of the holiday pay accrual by agreeing the amount of holiday taken by a sample of employees. For those property revaluations and impairments attributed to Covid-19, we checked data points before and after the onset of the pandemic to validate that the changes in key variables coincided with the timing of the pandemic. We also ensured that the presentation of these costs, and the way they were described in the context of the Group's results for the year, were consistent with guidance issued by the FRC. We did not identify any significant discrepancies through these procedures and were therefore satisfied that the presentation of these costs was acceptable and helped explain the financial results of the business. vii) We tested a sample of HMRC claims and associated cash receipts in respect of the CJRS income recorded. We did not identify any issues with the amounts recognised, which have been presented net against the payroll costs to which they relate. <p>We performed additional procedures to assess any control implications arising from the impact of the pandemic, including inquiries regarding the operation of IT and business process controls, and whether there had been any impact on the Group given the heightened cyber risk.</p> <p>Based on the inquiries performed and the results of our audit procedures, we did not identify any evidence of a material deterioration in the control environment.</p>

Key audit matter

How our audit addressed the key audit matter

Carrying value of investments in Kier Limited and Kier Living (Company)

Refer to page 96 (Risk Management and Audit Committee Report) and page 218 (Company notes to the financial statements).

The Company holds investments in subsidiaries of £532.2 million (2019: £486.2 million), the largest of which is in Kier Limited of £400.2 million (2019: £400.2 million).

We focused on this area due to the size of the investments' balance in the context of the Group's market capitalisation which remains below £100 million. The Directors' assessment of the carrying value of the investment in Kier Limited was that no impairment was required.

The Company also holds an investment in Kier Living of £110.0 million (2019: £69.4 million). The movement in the year reflects a capital contribution of £169.2 million, and an impairment of £123.2 million. This impairment reduced the carrying value of the investment to its recoverable amount, which was determined by its fair value less costs to sell of £110.0 million as set out in the Covid-19 Key Audit Matter above.

We reviewed the Directors' impairment assessment of the carrying value of the investment in Kier Limited and Kier Living.

In respect of the investment in Kier Limited, we agreed the cash flows used in this assessment to the forecasts used in the assessment of impairment of goodwill and other intangible assets. Our work performed on those cash flows is set out in the Goodwill Key Audit Matter above.

As a result of these procedures, we were satisfied with the Directors' conclusion that no impairment was required against the carrying value of the investment in Kier Limited.

In respect of the investment in Kier Living, we have described our procedures over the fair value less costs to sell in the Covid-19 Key Audit Matter above. We were satisfied that the impairment charge was determined appropriately.

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 are structured into three divisions represented by Infrastructure Services, Construction and Other. The Group audit partner, supported by other UK engagement leaders, led UK based teams responsible for the audit of each of these divisions. The three divisions include a number of reporting units in the Group's consolidation, each of which is considered to be a financial component.

The significant majority of the Group's operations are concentrated in the UK and account for 98% of the Group revenue, with the remaining 2% generated from overseas businesses. We instructed a component team in Dubai to perform full scope audit procedures on the Group's Middle East construction business. Our audit approach was designed to obtain coverage over 91% 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.

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Independent auditor's report to the members of Kier Group plc (continued)

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	£9.1 million (2019: £6.2 million).	£8.1 million (2019: £4.9 million).
How we determined it	3 year average of 5% of statutory result before tax from continuing operations.	1% of total assets limited by the allocation of component materiality.
Rationale for benchmark applied	We considered that the most appropriate benchmark on which to calculate materiality was the Group's statutory result before tax from continuing operations. Given the volatility in earnings over the last two years in particular due to the changes in the business, we adopted a three year average of the Group's statutory results.	We believe that total assets is the primary measure for shareholders of the financial statements of the ultimate holding company of the Group.

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 £0.3 million and £8.1 million. 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 £0.45 million (Group audit) (2019: £0.3 million) and £0.4 million (Company audit) (2019: £0.3 million) 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 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 2020 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 76 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 76 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 76, 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 96 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)

Financial Statements

Independent auditor's report to the members of Kier Group plc (continued)

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, 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

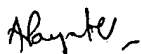
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- 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 directors on 24 September 2014 to audit the financial statements for the year ended 30 June 2015 and subsequent financial periods. The period of total uninterrupted engagement is 6 years, covering the years ended 30 June 2015 to 30 June 2020.



ANDREW PAYNTER

Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

25 September 2020

Financial Statements

Consolidated income statement

For the year ended 30 June 2020

	Notes	2020 £m	2019 ² £m
Continuing operations			
Revenue	2		
Group and share of joint ventures	3	3,475.6	4,106.0
Less share of joint ventures	3	(53.1)	(154.9)
Group revenue		3,422.5	3,951.1
Cost of sales		(3,220.4)	(3,659.7)
Gross profit		202.1	291.4
Administrative expenses		(391.7)	(504.6)
Share of post-tax results of joint ventures	16	(6.6)	10.1
Profit/(loss) on disposal of joint ventures and subsidiaries	33	0.6	(0.4)
Loss from operations	3, 4	(195.6)	(203.5)
Finance income	7	6.7	0.2
Finance costs	7	(36.4)	(26.2)
Loss before tax	3	(225.3)	(229.5)
Taxation	10	53.4	35.7
Loss for the year from continuing operations	3	(171.9)	(193.8)
Discontinued operations			
Loss for the year from discontinued operations (attributable to equity holders of the parent)	23	(101.4)	(15.4)
Loss for the year	3	(273.3)	(209.2)
Attributable to:			
Owners of the parent		(273.3)	(209.6)
Non-controlling interests		-	0.4
		(273.3)	(209.2)
Basic loss per share			
– From continuing operations	12	(106.2)p	(146.9)p
– From discontinued operations	12	(62.7)p	(11.6)p
Total		(168.9)p	(158.5)p
Diluted loss per share			
– From continuing operations	12	(106.2)p	(146.9)p
– From discontinued operations	12	(62.7)p	(11.6)p
Total		(168.9)p	(158.5)p
Supplementary information			
Adjusted ¹ operating profit	5	41.4	85.7
Adjusted ¹ profit	5	16.9	61.4
Adjusted ¹ earnings per share	12	15.3p	30.9p
Adjusted ¹ diluted earnings per share	12	15.3p	30.9p

¹ Reference to 'adjusted' excludes adjusting items, see notes 1 and 5.

² Comparative information has been re-presented to classify the Living division, which is held for sale at 30 June 2020, as a discontinued operation, see note 23. This has had no impact on the statutory reported results for the year ended 30 June 2019.

Financial Statements

Consolidated statement of comprehensive income

For the year ended 30 June 2020

	Notes	2020 £m	2019 ¹ £m
Loss for the year		(273.3)	(209.2)
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements on cash flow hedging instruments	16	(0.3)	0.2
Fair value gain on cash flow hedging instruments		5.7	8.6
Fair value movements on cash flow hedging instruments recycled to the income statement	7	(2.3)	(4.3)
Deferred tax charge on fair value movements on cash flow hedging instruments	10	(0.7)	(0.7)
Foreign exchange gains on long-term funding of foreign operations		1.0	0.9
Foreign exchange translation differences		0.1	–
Foreign exchange movements recycled to the income statement	7	3.3	(0.7)
Total items that may be reclassified subsequently to the income statement		6.8	4.0
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit liabilities	9	(6.2)	(22.9)
Deferred tax credit on actuarial losses on defined benefit liabilities and impact of UK tax rate change	10	6.4	3.9
Total items that will not be reclassified to the income statement		0.2	(19.0)
Other comprehensive income/(losses) for the year		7.0	(15.0)
Total comprehensive loss for the year		(266.3)	(224.2)
Attributable to:			
Equity holders of the parent		(266.3)	(224.6)
Non-controlling interests – continuing operations		–	0.4
		(266.3)	(224.2)
Total comprehensive loss attributable to equity shareholders arises from:			
Continuing operations		(164.9)	(209.2)
Discontinued operations		(101.4)	(15.4)
		(266.3)	(224.6)

¹ Comparative information has been re-presented to classify the Living division, which is held for sale at 30 June 2020, as a discontinued operation, see note 23. This has had no impact on the statutory reported results for the year ended 30 June 2019.

Financial Statements

Consolidated statement of changes in equity

For the year ended 30 June 2020

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings/ (accumulated losses) £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 30 June 2018		1.0	435.0	2.7	27.6	(5.0)	3.3	134.8	599.4	1.7	601.1
Impact of adopting IFRS 15		–	–	–	(60.8)	–	0.2	–	(60.6)	–	(60.6)
At 1 July 2018		1.0	435.0	2.7	(33.2)	(5.0)	3.5	134.8	538.8	1.7	540.5
(Loss)/profit for the year		–	–	–	(209.6)	–	–	–	(209.6)	0.4	(209.2)
Other comprehensive (loss)/income		–	–	–	(19.0)	3.8	0.2	–	(15.0)	–	(15.0)
Dividends paid	11	–	–	–	(52.6)	–	–	–	(52.6)	(1.6)	(54.2)
Issue of own shares		0.6	249.3	–	–	–	–	–	249.9	–	249.9
Share-based payments	28	–	–	–	7.2	–	–	–	7.2	–	7.2
Sale of own shares		–	–	–	0.4	–	–	–	0.4	–	0.4
At 30 June 2019		1.6	684.3	2.7	(306.8)	(1.2)	3.7	134.8	519.1	0.5	519.6
Impact of adopting IFRS 16	35	–	–	–	(16.6)	–	–	–	(16.6)	–	(16.6)
At 1 July 2019		1.6	684.3	2.7	(323.4)	(1.2)	3.7	134.8	502.5	0.5	503.0
Loss for the year		–	–	–	(273.3)	–	–	–	(273.3)	–	(273.3)
Other comprehensive income		–	–	–	0.2	2.4	4.4	–	7.0	–	7.0
Dividends paid	11	–	–	–	–	–	–	–	–	(0.4)	(0.4)
Share-based payments	28	–	–	–	5.4	–	–	–	5.4	–	5.4
Purchase of own shares		–	–	–	(0.9)	–	–	–	(0.9)	–	(0.9)
At 30 June 2020		1.6	684.3	2.7	(592.0)	1.2	8.1	134.8	240.7	0.1	240.8

The numbers in the table above are shown net of tax as applicable.

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. The new shares were fully subscribed on 20 December 2018, resulting in proceeds on issue of £249.9m, net of expenses of £13.7m, that were charged against the share premium account.

Financial Statements

Consolidated balance sheet

As at 30 June 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Intangible assets	13	720.6	766.7
Property, plant and equipment	14	42.3	57.3
Right-of-use assets	24	100.9	–
Investment properties	15	49.8	–
Investments in and loans to joint ventures	16	105.6	237.9
Capitalised mobilisation costs	17	1.9	3.3
Deferred tax assets	18	111.0	47.7
Contract assets	19	28.8	25.2
Trade and other receivables	20	32.9	29.0
Retirement benefit assets	9	99.5	58.4
Other financial assets	30	30.0	22.1
Non-current assets		1,323.3	1,247.6
Current assets			
Inventories	21	60.0	217.9
Contract assets	19	249.7	466.0
Trade and other receivables	20	236.4	372.9
Corporation tax receivable		12.5	9.1
Other financial assets	30	–	2.0
Cash and cash equivalents	22	413.9	311.7
Current assets		972.5	1,379.6
Assets held for sale as part of a disposal group	23	196.7	14.6
Total assets		2,492.5	2,641.8
Current liabilities			
Borrowings	22	(61.6)	(30.3)
Finance lease obligations	24	–	(1.1)
Lease liabilities	24	(33.1)	–
Trade and other payables	25	(957.5)	(1,311.0)
Contract liabilities	19	(108.7)	(134.0)
Provisions	26	(20.8)	(25.0)
Current liabilities		(1,181.7)	(1,501.4)
Liabilities held for sale as part of a disposal group	23	(81.7)	(1.5)
Non-current liabilities			
Borrowings	22	(689.8)	(473.6)
Finance lease obligations	24	–	(2.0)
Lease liabilities	24	(139.8)	–
Trade and other payables	25	(46.5)	(39.5)
Retirement benefit obligations	9	(60.7)	(38.9)
Provisions	26	(51.5)	(65.3)
Non-current liabilities		(988.3)	(619.3)
Total liabilities		(2,251.7)	(2,122.2)
Net assets	3	240.8	519.6
Equity			
Share capital	27	1.6	1.6
Share premium		684.3	684.3
Capital redemption reserve		2.7	2.7
Accumulated losses		(592.0)	(306.8)
Cash flow hedge reserve		1.2	(1.2)
Translation reserve		8.1	3.7
Merger reserve		134.8	134.8
Equity attributable to owners of the parent		240.7	519.1
Non-controlling interests		0.1	0.5
Total equity		240.8	519.6

The financial statements of Kier Group plc, company registration number 2708030, on pages 137 to 213 were approved by the Board of Directors on 25 September 2020 and were signed on its behalf by:

 ANDREW DAVIES, Chief Executive

 SIMON KESTERTON, Finance Director

Financial Statements

Consolidated cash flow statement

For the year ended 30 June 2020

	Notes	2020 £m	2019 ¹ £m
Cash flows from operating activities			
Loss before tax			
– continuing operations		(225.3)	(229.5)
– discontinued operations	23	(101.4)	(15.4)
Net finance cost	7	29.7	28.2
Share of post-tax trading results of joint ventures	16	0.2	(30.7)
Normal cash contributions to pension fund in excess of pension charge	9	0.2	0.3
Equity-settled share-based payments charge	28	5.4	7.2
Amortisation and impairment of intangible assets and mobilisation costs less negative goodwill		36.9	38.7
Impairment of assets held for sale	5	57.0	47.8
Research and development expenditure credit	4	(10.2)	(7.8)
Depreciation charges	14	7.6	15.5
Depreciation and impairment of right-of-use assets	24	46.0	–
(Profit)/loss on disposal of joint ventures and subsidiaries	33	(0.6)	0.4
Loss/(profit) on disposal of property, plant and equipment and intangible assets		4.9	(0.2)
Operating cash outflows before movements in working capital and pension deficit contributions		(149.6)	(145.5)
Deficit contributions to pension funds	9	(25.0)	(24.2)
Decrease in inventories	22	44.2	58.8
Decrease in receivables	22	108.1	110.2
Decrease/(increase) in contract assets		212.2	(42.7)
Decrease in payables	22	(278.6)	(42.4)
Decrease in contract liabilities		(20.5)	(61.4)
(Decrease)/increase in provisions	22	(4.0)	22.8
Cash outflow from operating activities		(113.2)	(124.4)
Dividends received from joint ventures ²	16	28.9	31.4
Interest received	7	6.7	0.2
Income tax received	10	5.9	10.1
Net cash outflow from operating activities		(71.7)	(82.7)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1.6	–
Proceeds from sale of subsidiaries and joint ventures, net of cash disposed	33	14.1	18.7
Purchase of property, plant and equipment	14	(3.8)	(11.6)
Purchase of intangible assets	13	(4.0)	(19.8)
Purchase of capitalised mobilisation costs	17	(0.8)	(0.9)
Acquisition of subsidiaries, net of cash acquired		–	(29.0)
Investment in joint ventures	16	(14.2)	(52.0)
Classification to assets held for resale		(0.1)	(2.2)
Net cash used in investing activities		(7.2)	(96.8)
Cash flows from financing activities			
Issue of shares		–	249.9
(Purchase)/sale of own shares	28	(0.9)	0.4
Interest paid		(34.9)	(24.3)
Principal elements of lease payments (2019: Finance lease repayments)	24	(40.4)	(4.5)
Drawdown of borrowings		274.7	–
Repayment of borrowings	22	(30.3)	(39.2)
Loan repayment from joint ventures ²	16	9.4	31.3
Settlement of derivative financial instruments		(0.5)	–
Dividends paid to equity holders of the parent	11	–	(52.6)
Dividends paid to non-controlling interests		(0.4)	(1.6)
Net cash from financing activities		176.7	159.4
Increase/(decrease) in cash, cash equivalents and overdraft		97.8	(20.1)
Effect of change in foreign exchange rates		4.4	0.9
Opening cash, cash equivalents and overdraft		311.7	330.9
Closing cash, cash equivalents and overdraft	22	413.9	311.7
Supplementary information			
Adjusted cash flow from operating activities	5	(19.7)	(63.6)

¹ Comparative information has been re-presented to classify the Living division, which is held for sale at 30 June 2020, as a discontinued operation, see note 23. This has had no impact on the statutory reported results for the year ended 30 June 2019.

² £31.3m has been re-presented in the comparative information from financing activities to investing activities for loan repayments from joint ventures.

Financial Statements

Notes to the consolidated financial statements

For the year ended 30 June 2020

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 2020 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 25 September 2020.

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 2019.

The Company has elected to prepare its parent company financial statements in accordance with the FRS 101 'Reduced Disclosure Framework'. These are presented on pages 214 to 219.

Basis of preparation

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 and the IFRS 2 share-based payments charge which is based on fair value movements of the Group's share price.

The following new standards, amendments to standards and interpretations are effective for the financial year ended 30 June 2020 onwards:

- IFRS 16 'Leases'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation and modification of financial liabilities
- Amendments to IAS 19 'Employee Benefits' on plan amendment, curtailment or settlement
- Amendments to IAS 28 'Investments in Associates' on long-term interests in associates and joint ventures
- Annual improvements 2015-2017 cycle
- IFRIC 23 'Uncertainty over income tax treatments'

Other than the impact of IFRS 16 as noted below, none of the above amendments to standards or interpretations has 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 17 'Insurance Contracts'
- Amendments to IFRS 3 'Business Combinations' – definition of a business
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting policies' on definition of material
- Amendments to IFRS 9, IAS 39 and IFRS 7 (financial instruments standards) on interest rate benchmark reform
- Amendments to IAS 1 'Presentation of Financial Statements' on classification of liabilities

No significant net impact from the adoption of these new standards or amendments is expected. The Group has chosen not to adopt any of the above standards or amendments earlier than required.

Going concern

The Board is required to consider the Group'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.

The Group was trading in line with the Board's expectations through the financial year up to 31 March 2020 and had made good progress against the strategic objectives announced in June 2019. To support the delivery of these strategic objectives, the Group has made a number of structural changes (including a material reduction in the Group's headcount), as summarised in the Chief Executive's review on pages 6 to 11. The Group expects that the reduction in the Group's headcount and the delivery of the other strategic objectives will enable it to realise annual run rate savings of at least £100m by 30 June 2021, as compared to the 2018 financial year.

In the fourth quarter of the financial year, however, the 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 principal 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 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 include 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 cash flows, using the financial impact of the initial outbreak as the basis of the assessment, was also considered.

The 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 macro-economic factors. In addition, significant cost reduction actions have already been taken to improve the Group's profitability.

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.

As a result, the Board is satisfied that the Group 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 Group's 2020 financial statements.

Impact of IFRS 16

The Group has transitioned to IFRS 16 using the modified retrospective approach whereby the cumulative impact of applying the standard is accounted for as an adjustment to equity at the start of the accounting period in which it is first applied (i.e. 1 July 2019).

The main impact of IFRS 16 has been to move the Group's larger, longer-term operating leases, primarily in respect of property, onto the balance sheet, with a consequential increase in non-current assets and lease obligations. Operating lease charges in respect of these leases, previously included in administrative expenses, have been replaced by depreciation and interest costs. The cash flows associated with these leases have not changed, however, they are now presented within 'cash flows from financing activities' rather than 'cash flows from operating activities'.

IFRS 16 has introduced a new category of non-current assets for 'right-of-use assets' associated with leases. At the date of initial application of IFRS 16, the carrying value of the Group's right-of-use assets was less than the additional lease liabilities that came on to the balance sheet. The Group has recognised a debit adjustment to reserves of £16.6m (net of the associated tax effect) in respect of the transitional adjustments.

Greater detail on the transitional adjustment has been provided in note 35.

Under the Group's chosen method of adoption, comparative figures for the preceding financial period have not been restated and remain presented under the previous leases standard, IAS 17. A reconciliation between the operating lease commitments disclosed under IAS 17 at 30 June 2019 and the lease liabilities on the Group's balance sheet on 1 July 2019 under IFRS 16, is set out in note 35.

Historically, Kier has not included finance lease liabilities within its measure of net debt, due to their asset-backed nature. Therefore, whilst IFRS 16 has brought additional lease liabilities onto the balance sheet, the standard has had no effect on the Group's net debt measure, which has been calculated consistently with previous reporting periods.

The Group's financing covenants are linked to the accounting standards in force at the time the facilities were agreed (frozen GAAP) and, therefore, are not impacted by the adoption of IFRS 16.

Impact of IFRIC 23

IFRIC 23 'Uncertainty over income tax treatments' is also effective for the first time for the year ended 30 June 2020. IFRIC 23 clarifies the accounting for uncertainties in income taxes. The new accounting guidance has not caused the Group to make any adjustment to its tax balances on adoption, i.e. the Group has not recognised any new or de-recognised any existing tax balances as a result of IFRIC 23.

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 2020. 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 remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurements are recognised in profit or loss.

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

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

1 Significant accounting policies continued

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.

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.

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.

Where revenue that has been recognised is subsequently determined not to be recoverable due to a dispute with the customer, these amounts are accounted for as a reduction in revenue. Where non-recovery is as a result of inability of a customer to meet its obligations, these amounts are charged to administrative expenses as a credit loss.

The general principles for revenue and profit recognition across the Group are as follows:

- Provision is made for any unavoidable future net losses arising from contract obligations, as soon as they become apparent;
- Additional consideration for contract modifications (variations) is only included in revenue (or the forecast contract out-turn) if the scope of the modification has been approved by the customer. If the scope of the modification has been approved but the parties have not yet determined the corresponding change in the contract price, an estimate of the change to the transaction price is made and included in calculating revenue to the extent that any increase in price is highly probable not to reverse;
- Contract modifications are treated as separate contracts if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract;
- Variable consideration amounts (gain-share amounts, KPI bonuses, milestone bonuses, compensation event claims, etc.) are included in revenue (or forecasts to completion) only to the extent that it is highly probable that a significant reversal of the amount in cumulative revenue recognised will not occur;
- Refund liabilities (liquidated damages, pain-share amounts, KPI penalties, etc.) are accounted for as a reduction in revenue (or in forecasting contract out-turns) as soon as it is expected that the Group will be required to refund some or all of the consideration it has received from the customer;
- Claims against third-parties (such as insurance recoveries and claims for cost reimbursements) outside of normal supplier price adjustments are recognised only when the realisation of income is virtually certain. The associated income is accounted for as reduction in costs rather than revenue; and
- Contract mobilisation is not considered to be a separate performance obligation in most situations, as the customer receives little or no benefit from mobilisation activities. Any consideration received from the customer in relation to the mobilisation phase of a contract is deferred and recognised as additional revenue relating to the performance obligations in the contract that benefit the customer.

If the timing of payments agreed with the customer provides the Group or the customer with a significant benefit of financing the transfer of goods or services, the amount of consideration is adjusted for the effects of the time value of money. The Group does not make an adjustment for the time value of money in the following circumstances:

- When the Group expects, at contract inception, that the period between the entity transferring a good or service and the customer paying for it will be one year or less; or
- Where the timing of the payments is for commercial rather than financing reasons, e.g. construction contract retentions.

Revenue and profit recognition policies applied to specific businesses are as follows:

(a) Construction contracts

Revenue is recognised on construction services over time as the benefit is transferred to the customer. The Group uses an input method to measure progress. The percentage of completion is measured using cost incurred to date as a proportion of the estimated full costs of completing the contract and is applied to the total expected contract revenue to determine the revenue to be recognised to 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.

(b) Services

Revenue and profit from services rendered, which include facilities management, highways maintenance, utilities maintenance, street cleaning and recycling, is recognised over time as the service is performed.

Progress on capital works and infrastructure renewal projects in the highways and utilities businesses is measured using costs incurred as a percentage of the estimated full costs of completing the performance obligation.

Where the contract includes bundled services, the transaction price is allocated to each performance obligation identified in the contract based on the relative stand-alone selling prices of each of the performance obligations. Revenue is then recognised independently when each of the performance obligations is satisfied.

Any variable consideration (e.g. performance bonus) attributable to a single performance obligation is allocated entirely to that performance obligation. Where variable consideration is attributable to the entire contract and is not specific to part of the contract, the consideration is allocated based on the stand-alone selling prices of each of the performance obligations within the contract.

Service contracts are reviewed monthly to assess their future operational performance and profitability.

(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, being the point that control is deemed to pass to the customer.

Profit is recognised on the sale of each housing plot by reference to the estimated cost of that plot based on an allocation from the expected overall cost out-turn for the development site. The principal estimation technique used by the Group in attributing profit on sites to a particular period is the preparation of forecasts of costs to complete on a site-by-site basis. Consistent review procedures are in place in respect of site forecasting.

Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts.

Where plots are sold part-way through construction (e.g. affordable housing plots acquired by a housing association), subsequent revenue is recognised over time based on the stage of completion reflecting the transfer of benefit to the customer. If it is not possible to establish an accurate allocation of cost from the overall site costs and therefore not possible to establish the stage of completion based on actual costs, external valuations are used to estimate the percentage of completion.

(d) Property development

Revenue in respect of property developments is recorded 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.

Where developments are sold in advance of construction being completed, revenue and profit are recognised at the point of sale, reflecting the transfer of control to the customer in its current stage of completion. Thereafter, revenue for construction services provided to the customer to complete the property is recognised over time in line with the percentage of completion, consistent with the Group's accounting policy on recognising revenue on construction contracts (see above).

(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 stand-alone selling prices of the services delivered.

Pre-contract and contract mobilisation costs

Pre-contract costs to obtain a contract that would have been incurred irrespective of whether the contract was obtained are recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer irrespective of whether the contract is obtained.

Mobilisation costs incurred in respect of a specific contract that has been won or an anticipated contract that is expected to be won (e.g. when the Group has secured preferred bidder status), are carried forward in the balance sheet as capitalised mobilisation costs if: the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and the costs are expected to be recovered (i.e. the contract is expected to be sufficiently profitable to cover the mobilisation costs).

The vast majority of contracts incurring significant mobilisation costs are contracts that exceed 12 months in duration. The Group's policy is therefore to show its capitalised mobilisation costs as a non-current asset, amortised over the expected contract duration.

Warranties and rectification costs

The Group does not offer extended insurance-type warranties at an additional cost to the customer (which would represent separate performance obligations). Standard industry assurance-type warranties are provided and are accounted for as rectification cost provisions based on the estimated costs of making good any latent defects.

Adjusting items

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

1 Significant accounting policies continued

During the year, the Directors have reviewed the previous accounting presentation for disclosing certain items as exceptional on the income statement. The Directors have considered the requirements of applicable accounting standards, along with additional guidance around Alternative Performance Measures ('APM') and have concluded that the Group will move away from using its previous disclosure on the face of the Group's income statement. The Directors consider that it would be more appropriate to present an income statement that shows the Group's statutory results only.

The Directors however still believe it is appropriate to inform users regarding various items and disclose those items which are deemed one-off, material or non-recurring in size or nature and a decision has been made to align to internal management reporting as the Directors consider it makes the financial statements presentation clearer to the users of the accounts. As such, the Group is disclosing as supplementary information an 'Adjusted Profit' APM which is reconciled to statutory profit in the Notes to the Financial Statements and is consistent with IFRS 8 segmental reporting.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items. The Directors review segmental results under an adjusted items basis to analyse the performance of operating segments.

The Directors exercise judgement in determining the classification of certain items as adjusting using quantitative and qualitative factors. In assessing whether an item is an adjusting item, the Directors give consideration, both individually and collectively, as to an item's size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items.

Amortisation of acquired intangible assets and certain financing costs are also included as adjusting items on the basis of being ongoing non-cash items generated from acquisition related activity.

A full reconciliation from statutory numbers to adjusted profit measures has been presented in note 5. As a result of the Group's change in its APM, a review of the prior year has been conducted to align to the revised presentation. No restatement of prior year numbers is required as the Directors believe all material items in the prior year which were classified as an exceptional item also meet the new definition of an adjusting item. Similarly, no material prior year items have been highlighted which meet the new adjusting items definition that did not meet the previous exceptional items definition.

The Group presents revenue including from joint venture arrangements as an alternative performance measure. The Directors believe this is a useful measure as it provides visibility over the scale of the Group's operations, particularly within its Property business where a significant proportion of developments are set up in joint ventures.

The Group also presents adjusted cash flow from operations, free cash flow and net debt as alternative performance measures. The Directors consider that these provide useful information about the Group's liquidity and debt profile.

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.

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	3–10 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.

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.

Leases

For the 2019 comparative reporting period, leases in terms of which the Group assumed substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset was 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 was accounted for in accordance with the accounting policy applicable to that asset.

Other leases were operating leases, and the rental charges were charged to the income statement on a straight-line basis over the life of each lease.

The Group has applied the following accounting policy in respect of leases from 1 July 2019.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Most Group companies do not have any recent independent third-party financing to use as a starting point for the incremental borrowing rate. Therefore, the Group uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, lease term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Any restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Group has elected to use the following recognition exemptions, as permitted by the standard:

- Leases of low-value items – The Group has defined low-value items as assets that have a value when new of less than c£5,000. Low-value items comprise IT equipment and small items of plant.
- Short-term leases – Leases with a lease term of less than 12 months at inception.

For leases in the above categories, a lease liability or right-of-use asset is not recognised. Instead, the Group recognises the related lease payments as an expense on a straight-line basis over the lease term.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative standalone prices.

Leased properties that meet the definition of investment properties are presented within 'investment properties' rather than 'right-of-use assets' on the balance sheet.

Investment properties

Investment properties, principally office buildings and land, are held for the purpose of earning rentals and/or for capital appreciation and are not occupied by the Group. Investment properties are measured using the fair value model. Gains and losses arising from a change in the fair value of investment properties is recognised in the income statement in the period in which they arise.

Rental income in respect of investment properties is credited to 'other income' within administrative expenses and is disclosed in note 15.

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.

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

1 Significant accounting policies continued

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.

Inventories are valued on a first in, first out (FIFO) basis.

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 cannot be measured reliably.

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. During the year, Coronavirus Job Retention Scheme ('CJRS') income has been received and offset against cost of sales or administrative expenses, depending on where the employee costs are recorded.

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 IAS 19. 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. Remeasurements 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, Conditional Share Award Plan 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. Awards that are subject to a post vesting holding period are valued using the Finterty 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.

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.

A trade receivable is recognised when the Group has a right to consideration that is unconditional (subject only to the passage of time before payment is due). Trade receivables do not carry interest and are stated at their initial cost reduced by appropriate allowances for expected credit losses.

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.

Amounts owing under supply chain finance arrangements are included within trade payables rather than bank debt. The purpose of supply chain finance is purely to grant subcontractors and suppliers access to credit and improve their cash flows. There have been no changes to the underlying terms of the supply chain finance arrangements.

The designation in trade payables is due to the assignment of invoice rather than a novation, Kier acting as an agent with fees related to supply chain finance being borne by the supplier and the final payment date to the bank being set by Kier with interest accrued for any late payments.

(b) Contract assets and liabilities

When the Group transfers goods or services to a customer before the customer pays consideration or before payment is due, the amount of revenue associated with the transfer of goods or services is accrued and presented as a contract asset in the balance sheet (excluding any amounts presented as a receivable). A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.

If a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Group transfers a good or service to the customer, the amount is presented as a contract liability on the balance sheet. A contract liability represents the Group's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

(c) 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.

(d) 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.

(e) 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.

(f) Derivative financial instruments

As permitted by IFRS 9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured 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 quoted market prices at the balance sheet date.

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, 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.

There are five contracts (2019: 10 contracts) that the Group considers require significant accounting estimates and, as at 30 June 2020, the Group has included estimated recoveries from customers with a combined value of £16.2m (2019: £29.3m). These recoveries are recognised on the basis that they are considered highly probable not to reverse, however, there is clearly a range of factors affecting potential outcomes once these contracts are finalised and the Group estimates the values on these contracts could collectively range from an upside of £13.5m (2019: £12.9m) to a downside of £16.0m (2019: £7.4m).

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

1 Significant accounting policies continued

Over 500 construction contracts (2019: over 500) were income generating during the year within the Group's Construction and Infrastructure Services operating divisions. Of these, one (2019: five) individually had a material impact on operating loss. This contract is a significant ongoing rebuild project that is covered by a fixed insurance recovery, for which there are no balances with customers however there is risk associated with the future costs of rebuild.

The key judgements and estimates relating to determining the revenue and profit of material contracts are:

- costs to complete
- achieving the planned build programme
- recoverability of claims and variations in accordance with IFRS 15
- each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract, determined by a combination of management judgement and external professional assistance, backed up by judgements papers for the contracts that have a material impact on the income statement.

The level of estimation uncertainty in our construction businesses is reduced by the effect of its substantial portfolio and significant experience of the division's management team. The level of estimation is further reduced by the combination of the modest scale and short contract durations of our projects. Nevertheless, the profit recognition in our Construction business is a key estimate, due to the inherent uncertainties in any construction project over revenues and costs.

The level of estimation and uncertainty differs between our construction businesses, particularly between Regional Building, Major Projects – Building and Infrastructure. UK Building operates around 400 sites each year with an average project size of £11.8m and with average revenue in the year of £4m. These projects typically operate under framework contracts where costs are known with a greater degree of certainty. Infrastructure manages around 30 sites with projects ranging from a relatively small number of higher value major Infrastructure Civil Engineering projects to a larger number of more modest minor signalling upgrades and replacements.

The major infrastructure civil engineering projects typically include Design and Build, Construct only and Lump Sum contracts. The nature and length of these contracts means there can be a greater level of estimation and uncertainty. The blended portfolio risk of the overall construction businesses is mitigated by the relative sizes of the Regional Building, Major Projects – Building and Infrastructure businesses.

Our construction revenue for the year is £1.6bn (2019: £1.9bn) with an associated margin of 2.3% (2019: 2.7%). The historic profit margins in our construction businesses typically range from 1.8% to 3.4%. We therefore determined that a potential downside risk in margin would be 0.5% (2019: 0.9%). Given the short-term average duration (approximately 12 months) of our construction portfolio, the impact of such a decrease in margin across our projects in delivery at the year end would be a decrease in operating profit of £7.9m (2019: £8.6m).

(b) Lifecycle assets

The Group has a number of ongoing contracts where lifecycle funds are established to meet contractual obligations. The key sensitivity in our calculation is the percentage of the funds build-up required for future maintenance. A reasonably likely change would be an increase or decrease of 10% in the percentage of funds build-up required. Such a change would result in a profit impact of approximately £1m in any one year.

(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 and sensitivity to changes in these assumptions are included in note 9.

(d) 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, discount rate and terminal growth rate. The assumptions are set out in note 13 together with an assessment of the impact of reasonably possible sensitivities.

(e) Joint ventures

In accordance with IFRS 11 para 7, joint ventures are identified where the control of an arrangement is shared and decisions around activities require unanimous consent if the action significantly affects the investee's return. The key judgement involved in determining joint control is that the board structure and the mechanisms, including deadlock mechanisms, in the reserved matters do not give any one party majority control over relevant activities, regardless of the economic split between partners.

(f) Adjusting items

Adjusting items are items of financial performance which the Group believes should be separately presented to assist in understanding the financial performance achieved by the Group in accordance with the accounting policy set out on pages 145 to 146. Determining whether an item is classified as an adjusting item requires significant judgement.

Total adjusting items of £237.0m were charged to the income statement in respect of continuing operations for the year ended 30 June 2020 (2019: £290.9m). A further amount of £88.6m (2019: £51.6m) was charged in respect of discontinued operations. The items that comprise this are set out in note 5 together with an explanation of their nature and consideration points as to why the Directors believe these to be adjusting items.

(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.

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.

(h) Transition to IFRS 16

The lease liabilities that were brought onto the balance sheet on transition to IFRS 16 have been measured at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rates as at 1 July 2019. Some judgement has been required in determining the Group's incremental borrowing rates due to a lack of observable rates from recent independent third-party financing at the transition date. Had the discount rates used at 1 July 2019 been determined to be 0.5% higher than the rates used, it would have resulted in a reduction in lease liabilities of c£5.5m at the transition date; whilst a 0.5% decrease in the discount rates used at transition would have resulted in an increase of c£6.5m. However, in each case, the impact on reserves at the transition date would have been mitigated to a large extent by corresponding adjustments to the values of the associated right-of-use assets.

Another factor which affects the level of lease liabilities on the balance sheet is the lease term. IFRS 16 defines the lease term as the non-cancellable period of a lease, together with; periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. Therefore, judgement is sometimes required in determining whether the Group is reasonably certain to extend a lease in the future. With regard to the Group's 14 largest property leases (which account for 64% of the total lease liabilities and 88% of the property lease liabilities at the transition date) only three contained break or extension options. A change in assumptions to base the liability on the minimum and maximum possible periods for these leases would have resulted in a £1.7m reduction or £0.6m increase to the lease liability, respectively.

(i) Property leases

In line with the communicated strategy, the Group continues to rationalise its property portfolio and has exited various leased corporate offices. Given the length of the underlying leases and the uncertainty in the property market, in calculating the right-of-use asset impairment judgement has been exercised in the following areas:

- Length of time to sublet the property – assumption is within 12 months
- Sub-rental amounts – assumption is based on management's current best estimate of market rental values
- Discount rate – this is based on the average discount rate used in the IFRS 16 calculations

(j) Assets held for sale

In accordance with IFRS 5, determining whether an asset should be classified as an Asset held for sale requires judgement as to whether the classification criteria laid out within is met as at the balance sheet date.

The Group has concluded that the assets of Kier living constitute an Asset held for sale. Judgement was required in this conclusion, with specific consideration given to whether the assets were being actively marketed at 30 June 2020 and whether a sale within 12 months is highly probable. The current COVID-19 environment brings an additional level of uncertainty, however the Group consider that the assets were being actively marketed and that a sale within the next 12 months is highly probable.

The valuation of the disposal group assets also requires judgement. Management have used internal expertise, along with third-party valuations, to arrive at a fair value as at 30 June 2020.

(k) Taxation

The Group is subject to a number of jurisdictions and judgement is required in determining the overall provision for income taxes.

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. In particular, the Group has exercised judgement in recognising a deferred tax asset of £94.6m in respect of tax losses. Based on the Group's forecasts, it is considered probable that this will be utilised over a reasonable timeframe.

(l) Land and property valuations

The valuation of the Group's property portfolio is an area which requires significant judgement, with the outbreak of COVID-19 providing additional uncertainty. An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon the Group's estimate of forecast selling prices and build/development costs (by reference to current prices), which may require significant judgement. Where applicable, third-party valuations are used to support the position as at the balance sheet date.

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

2 Revenue

Revenue is entirely derived from contracts with customers.

Infrastructure Services

The Group derives revenue from capital infrastructure projects as well as the maintenance of infrastructure assets across various sectors including highways, rail, water, gas and domestic fibre installation.

Capital projects can range from the construction of power stations, roads, bridges and tunnels over a period of several years (e.g. Hinkley Point C, Mersey Gateway bridge, Crossrail and HS2), to small schemes completed in a matter of days. Revenue is recognised over time as the construction services are rendered to the customer. Each capital project is typically a single performance obligation.

The Group also provides maintenance services for the UK road, rail and utilities infrastructure through both routine, preventative maintenance as well as reactive repairs. These services are generally delivered under framework contracts of between five to eight years, however, individual performance obligations under the framework are normally determined on an annual, monthly or ad hoc basis. Revenue is recognised over time as the maintenance services are rendered to the customer.

Where multiple services are supplied under a single contract they are treated as separate performance obligations and revenue is recognised separately as each performance obligation is satisfied.

Services are normally invoiced monthly in arrears under normal commercial credit terms. Under some contracts, amounts are held back as a retention for periods that can exceed 12 months. However, as the purpose of the retentions is to ensure that the performance obligations on the contract are carried out to a satisfactory standard, the Group does not deem there to be a significant financing component in the timing of the cash flows on these amounts.

The Group's obligation to make good faulty workmanship under standard industry warranty terms is recognised as a provision (see note 26).

Construction

The Group undertakes over 400 building projects each year, providing construction services in the private, education and health sectors and on public sector frameworks. Projects range from extensions costing £0.3m to the construction of major strategic assets costing hundreds of millions of pounds. The construction of a building, including any associated design work, is normally accounted for as a single performance obligation as the services provided are normally highly interrelated. Revenue is recognised over time as the performance obligation is satisfied.

Invoices are typically raised monthly, based on valuations of the work completed, and have normal commercial payment terms. It is common in the construction industry for an amount to be held back as a retention for periods that can exceed 12 months. However, as the purpose of the retentions is to ensure that the performance obligations on the contract are carried out to a satisfactory standard, the Group does not deem there to be a significant financing component in the timing of the cash flows on these amounts.

Whilst the bulk of consideration associated with construction contracts is fixed, variable consideration elements can exist (milestone bonuses, gain share, event claims, etc.). The Group only recognises revenue for these amounts if they are highly probable not to reverse.

Liquidated and ascertained damages ('LADs') clauses are often present in construction contracts. Where it is anticipated that a LADs clause will be triggered (e.g. through overrunning works), revenue is constrained to reflect the expected amount of the deduction.

Modifications to the scope of construction work are agreed in principle with the customer before additional work is carried out. However, the price is not always determined until the final account stage. In these circumstances the Group treats the revenue associated with the modification as variable consideration and only recognises amounts that are highly probable not to reverse.

The Group's obligation to repair building faults under standard industry warranty terms is recognised as a provision (see note 26).

For the Group's construction activities in the Middle East, in some circumstances, customers pay upfront amounts to protect the Group against payment default. Payments on account are not normally made more than 12 months in advance of the service delivery.

The Group also provides maintenance services to local authorities and private landlords with large housing portfolios. Revenue for maintenance services is recognised over time as the services are rendered. Services are either invoiced monthly or shortly after completion of individual performance obligations. Normal commercial payment terms apply.

Other

The Group undertakes property development and house building on its own sites as well as a service for customers. The Group also provides facilities management and maintenance services for commercial property owners, and waste and recycling collection services for local authority and commercial customers.

Revenue in respect of property developments is recorded on unconditional exchange of contracts. In most cases payment is received on legal completion.

Where developments are sold in advance of construction being completed, revenue and profit are recognised at the point of sale, reflecting the transfer of control to the customer in its current stage of completion. Thereafter, revenue for construction services provided to the customer to complete the property development is recognised over time as the construction services are rendered. Construction services are normally invoiced monthly based on valuations under normal commercial payment terms.

Revenue from house sales is recognised on legal completion, being the point that control is deemed to pass to the customer. Payment is also received at the point of legal completion.

Where housing plots are sold part-way through construction (e.g. affordable housing plots acquired by a housing association), subsequent revenue is recognised over time based on the stage of completion of the build reflecting the transfer of benefit to the customer.

Occasionally the Group will sell land that it has previously acquired for potential commercial property or housing developments. Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts.

Facilities management and maintenance services revenue is recognised over time as the services are rendered. Invoices for services rendered are typically raised monthly. Typically, normal commercial payment terms apply, with the exception of the PFI lifecycle contracts, as noted below.

The Group has a number of long-term PFI lifecycle contracts to maintain properties over periods of 25-30 years. A fund is established at the start of the contract and amounts are drawn down by the Group as maintenance work is performed. The Group is also entitled to share in any surplus left in the fund at the end of the contract. Revenue is recognised over time to reflect the rendering of the service including an assessment of the appropriate proportion of the likely surplus in the fund, subject to being highly probable not to reverse. As the surplus amount will not be paid until the end of the contracts, the contract asset associated with the surplus recognised to date is shown as a non-current asset in the balance sheet. The surplus is payable at the end of the contract to ensure that the property is maintained to a satisfactory standard over the full term of the contract and to promote efficiencies. As such the Group does not deem there to be a significant financing component.

Environmental services contracts with local authorities, for domestic waste and recycle collections and operation of household waste and recycling centre, have a typical duration of between 7 and 10 years. Contract with commercial customers are typically for 12 months. Revenue from environmental services contracts is recognised overtime as the services are performed. Invoices are raised monthly in arrears and normal commercial payment terms apply.

Transaction price allocated to remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

At 30 June 2020

	2021 £m	2022 £m	2023 onwards £m
Infrastructure Services	489.4	430.4	991.0
Construction	622.2	106.8	92.5
Other	66.6	13.8	13.9
Total transaction price allocated to remaining performance obligations	1,178.2	551.0	1,097.4

At 30 June 2019

	2020 £m	2021 £m	2022 onwards £m
Infrastructure Services	369.5	98.5	32.0
Construction	1,184.9	355.6	10.3
Other	137.8	15.9	23.5
Total transaction price allocated to remaining performance obligations	1,692.2	470.0	65.8

The above transaction prices only include variable consideration if it is highly probable not to reverse and exclude any estimate of revenue from framework contracts for which a firm commitment or order has not been received at the reporting date.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

3 Segmental reporting

From 1 July 2019, the Group changed its reporting format to focus on two market positions of 'Infrastructure Services' and 'Construction'. This is the basis on which the Group reports its primary segmental information for the year ended 30 June 2020. The Group is simplifying its portfolio by selling or substantially exiting the following activities which are deemed to be 'non-core' and are now presented as 'Other': Property, Facilities Management and Environmental Services. 'Corporate' includes unrecovered overheads and the charge for defined benefit pension schemes.

The change in reporting structure has also resulted in a change to the Group's previously reported cash generating units ('CGUs'). In accordance with IAS 36 'Impairment of Assets' the Group has reallocated the carrying value of the Group's goodwill as at 1 July 2019 to each of the Group's new CGUs as follows:

	£m
Infrastructure Services	516.3
Construction	20.4
Other	–
	536.7

Segment 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 with separate management and have different core customers and offer different services. The segments are discussed in the Operational Review on pages 10 to 11.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 142 to 151. The Group evaluates segmental information on the basis of profit or loss from operations before adjusting 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.

Year to 30 June 2020

	Infrastructure Services £m	Construction £m	Other £m	Corporate £m	Group £m
Continuing operations					
Revenue¹					
Group and share of joint ventures	1,506.2	1,588.1	370.4	10.9	3,475.6
Less share of joint ventures	–	–	(53.1)	–	(53.1)
Group revenue	1,506.2	1,588.1	317.3	10.9	3,422.5
Timing of revenue¹					
Products and services transferred at a point in time	3.9	–	53.0	–	56.9
Products and services transferred over time	1,502.3	1,588.1	317.4	10.9	3,418.7
Group and share of joint ventures	1,506.2	1,588.1	370.4	10.9	3,475.6
Loss for the year					
Operating profit/(loss) before adjusting items ⁵	31.3	36.1	5.1	(31.1)	41.4
Adjusting items ⁵	(21.9)	(95.0)	(19.4)	(100.7)	(237.0)
Profit/(loss) from operations	9.4	(58.9)	(14.3)	(131.8)	(195.6)
Net finance costs ²	(1.5)	(0.7)	(11.1)	(16.4)	(29.7)
Profit/(loss) before tax from continuing operations	7.9	(59.6)	(25.4)	(148.2)	(225.3)
Taxation					53.4
Loss for the year from continuing operations					(171.9)
Loss for the year from discontinued operations					(101.4)
Loss for the year					(273.3)

Year to 30 June 2020

	Infrastructure Services £m	Construction £m	Other £m	Corporate £m	Group £m
Continuing operations					
Balance sheet					
Operating assets ³	895.7	415.4	273.4	267.4	1,851.9
Operating liabilities ³	(385.2)	(609.6)	(111.6)	(312.2)	(1,418.6)
Net operating assets/(liabilities)³	510.5	(194.2)	161.8	(44.8)	433.3
Cash, cash equivalents and borrowings	346.2	392.2	(206.8)	(869.1)	(337.5)
Net financial assets	–	–	–	30.0	30.0
Net assets/(liabilities) excluding net assets held for sale	856.7	198.0	(45.0)	(883.9)	125.8
Net assets held for sale					115.0
Net assets					240.8
Other information					
Inter-segmental revenue	16.4	0.3	1.9	43.6	62.2
Capital expenditure on property, plant, equipment and intangible assets	1.2	1.5	3.2	1.9	7.8
Depreciation of property, plant and equipment	(1.0)	(0.7)	(0.1)	(5.8)	(7.6)
Amortisation of computer software	(0.2)	(1.7)	–	(9.1)	(11.0)

Year to 30 June 2019⁴

	Infrastructure Services £m	Construction £m	Other £m	Corporate £m	Group £m
Continuing operations					
Revenue¹					
Group and share of joint ventures	1,669.1	1,849.3	584.7	2.9	4,106.0
Less share of joint ventures	–	–	(154.9)	–	(154.9)
Group revenue	1,669.1	1,849.3	429.8	2.9	3,951.1
Timing of revenue¹					
Products and services transferred at a point in time	4.0	–	179.1	–	183.1
Products and services transferred over time	1,665.1	1,849.3	405.6	2.9	3,922.9
Group and share of joint ventures	1,669.1	1,849.3	584.7	2.9	4,106.0
Loss for the year					
Operating profit/(loss) before adjusting items ⁵	53.3	67.2	12.3	(47.1)	85.7
Adjusting items ⁵	(56.6)	(44.1)	(78.6)	(109.9)	(289.2)
Profit/(loss) from operations	(3.3)	23.1	(66.3)	(157.0)	(203.5)
Net finance costs ²	(1.4)	6.9	(19.7)	(11.8)	(26.0)
(Loss)/profit before tax from continuing operations	(4.7)	30.0	(86.0)	(168.8)	(229.5)
Taxation					35.7
Loss for the year from continuing operations					(193.8)
Loss for the year from discontinued operations					(15.4)
Loss for the year					(209.2)

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

3 Segmental reporting continued

Year to 30 June 2019⁴

Continuing operations	Infrastructure Services £m	Construction £m	Other £m	Corporate £m	Group £m
Balance sheet					
Operating assets ³	1,033.5	507.7	614.7	135.5	2,291.4
Operating liabilities ³	(403.1)	(749.2)	(314.4)	(150.1)	(1,616.8)
Net operating assets/(liabilities)³	630.4	(241.5)	300.3	(14.6)	674.6
Cash, cash equivalents and borrowings	267.4	362.2	(372.7)	(449.1)	(192.2)
Net financial assets	–	–	–	24.1	24.1
Net assets/(liabilities) excluding net assets held for sale	897.8	120.7	(72.4)	(439.6)	506.5
Net assets held for sale					13.1
Net assets					519.6
Other information					
Inter-segmental revenue	10.9	2.3	2.3	68.7	84.2
Capital expenditure on property, plant, equipment and intangible assets	2.1	3.6	7.2	18.5	31.4
Depreciation of property, plant and equipment	(1.8)	(0.8)	(6.6)	(6.3)	(15.5)
Amortisation of computer software	(1.5)	(2.8)	(1.0)	(10.0)	(15.3)

¹ Revenue is stated after the exclusion of inter-segmental revenue and before adjusting items. Over 90% of the Group's revenue is derived from UK-based customers.

² Interest was (charged)/credited to the divisions at a notional rate of 4.0%.

³ Net operating assets/(liabilities) represent assets excluding cash, cash equivalents, bank overdrafts, borrowings, financial assets and liabilities, assets and liabilities classified as held for sale and interest-bearing inter-company loans.

⁴ Prior year comparative information re-presented to show the new reporting segments focused on the Group's two market positions of Infrastructure Services and Construction, see note 1, and to classify the Living division as a discontinued operation, which is held for sale at 30 June 2020, see note 23.

⁵ See note 1 and 4 for adjusting items.

4 Profit/(loss) from operations

Profit/(loss) from operations is stated after charging/(crediting):

	Notes	2020 £m	2019 £m
Auditors' remuneration:			
· Fees payable for the audit of the parent company and consolidated financial statements		1.9	0.4
· Fees payable to the Company's auditor for other services ¹ :			
Audit of the Company's subsidiaries, pursuant to legislation		2.0	1.2
Other services		1.0	0.2
Amortisation of intangible assets	13	34.7	40.3
Impairment of intangible assets	13	–	37.8
Loss on disposal of computer software	13	5.0	12.8
Depreciation of property, plant and equipment:			
Owned	14	7.6	12.0
Finance leases	14	–	3.5
Loss/(profit) on sale of property, plant and equipment		0.1	(0.2)
Impairment of property, plant and equipment	14	5.4	10.0
Depreciation of right-of-use assets	24	35.8	–
Impairment of right-of-use assets	24	10.2	–
Fair value adjustment to investment properties	15	0.6	–
Amortisation of capitalised mobilisation cost	17	1.5	1.4
Impairment of capitalised mobilisation cost	17	0.7	–
Negative goodwill recognised		–	(0.8)
Hire of plant and machinery		–	120.2
Operating lease rentals:			
Land and buildings		–	16.4
Plant and machinery		–	21.8
Expenses relating to short-term leases and leases of low-value assets	24	71.4	–
Net Research and Development Expenditure Credit receivable ²		(9.4)	(7.8)
Net loss from operations related to mining		2.3	4.3

¹ The Auditors' remuneration relates to amounts paid to PricewaterhouseCoopers LLP (PwC). A summary of other services provided by PwC during the year is provided on page 98. Included in the 2020 audit fees are additional fees of £1.3m for prior year work. An additional £1.0m was paid to PwC in 2019 in respect of reporting accountant services associated with the rights issue which were charged to the share premium account.

² Includes £10.2m of receipts and £0.8m of fees payable to consultants.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

5 Adjusting items

The Group's policy in respect of adjusting items is described in note 1. These items are explained in detail below:

	Operating (loss)/profit		(Loss)/profit before tax	
	2020 £m	2019 ¹ £m	2020 £m	2019 ¹ £m
Reported loss from continuing operations	(195.6)	(203.5)	(225.3)	(229.5)
Amortisation of acquired intangible assets	23.7	24.8	23.7	24.8
Costs associated with previous acquisitions	5.0	29.3	5.0	29.3
Restructuring and related charges	156.1	56.1	156.1	56.1
Preparation for business divestment or closure	33.6	120.4	33.6	120.4
Exceptional contract losses	–	49.9	–	49.9
Other	18.6	8.7	23.8	10.4
Adjusted profit from continuing operations	41.4	85.7	16.9	61.4

¹ Comparative information has been re-presented to classify the Living division as a discontinued operation, which is held for sale at 30 June 2020, see note 23.

a) Amortisation of acquired intangible assets

	2020 £m	2019 £m
Amortisation of acquired intangible assets and deferred considerations	(23.7)	(24.8)

b) Costs associated with previous acquisitions

	2020 £m	2019 £m
McNicholas acquired contract provision and exit costs ¹	–	(21.5)
Integration costs relating to the McNicholas acquisition ²	(8.5)	(11.8)
Release of deferred and contingent consideration ³	–	4.0
McNicholas acquired contract settlement ⁴	3.5	–
Total charge before tax	(5.0)	(29.3)

¹ Provision to WIP and exit costs in relation to a contract acquired with McNicholas in respect of a major customer. The charge was considered to be an adjusting item in FY19 on the basis of its size and the fact that these assets were acquired, as a result of which the associated income has never been recorded by the Group.

² Costs incurred to integrate the McNicholas acquisition into the Utilities business including significant double-running of people and lease costs. These are considered to be adjusting items on the basis of their size, the fact that they relate to a major acquisition and that these are non-recurring costs that have now come to an end in FY20.

³ The Group released contingent consideration in FY19 relating to the McNicholas acquisition which is not payable.

⁴ Revenue received in settlement of a contract acquired with McNicholas.

c) Restructuring and related charges

The Group has incurred significant restructuring charges relating to costs of organisational change associated with the Group's cost saving programmes and, latterly, the Group's Strategic Review programme announced following the appointment of Andrew Davies as CEO. These are discussed further in the Financial Review. These are considered to be adjusting items on the basis of their size and the fact that they relate to significant changes to the Group's activities, property portfolio and workforce.

	2020 £m	2019 £m
Restructure of Regional Southern Build business ¹	(61.5)	–
Redundancy costs ²	(29.5)	(38.4)
Professional adviser fees and other costs incurred implementing non-people initiatives ³	(34.2)	(13.3)
Lease impairments (2019: onerous lease) ⁴	(14.4)	(4.4)
Costs in preparation for outsourcing arrangements ⁵	(11.1)	–
Property impairment ⁶	(5.4)	–
Total charge before tax	(156.1)	(56.1)

¹ The Group has undertaken a strategic review of its Regional Southern Build business resulting in the restructuring of management, closure of offices and closure of certain sectors. This process also included charges relating to the recoverability of assets following implementation of the new strategy and the challenging COVID-impacted market conditions.

² Costs in respect of roles made redundant as a result of cost saving programmes and from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions following the announcement of the strategic review.

³ The Group incurred various costs in running the restructuring activities during the year. These included the professional adviser fees, incremental costs of teams involved in the management of the restructuring activities and costs incurred implementing non-people initiatives.

⁴ The Group has incurred impairment charges on a corporate office lease of £16.8m, which is being exited as part of the cost saving programme. Another corporate office lease that was previously impaired by £3.8m (FY19: £4.4m onerous lease provision) is to be utilised instead. The remaining lease impairment on this office was released in HY20 (£3.5m) which was offset by refurbishment costs of £1.1m.

⁵ The Group has outsourced its Fleet and IT services during the year, incurring £8.3m of costs. This includes one-off set up costs and dual-running costs.

⁶ As part of its restructuring programme the Group has closed its head office, which is now held as an investment property. As a result, an impairment charge of £5.4m has been recognised.

d) Costs incurred in the disposal of operations or in preparation for business divestment or closure

The Group has incurred various charges driven by the change in strategic direction of the Group and the decision to exit certain divisions deemed non-core to its ongoing operations. Most of these charges are non-cash and are considered to be adjusting items on the basis that they relate to a major restructuring of the Group following the Strategic Review that took place in 2019.

	2020 £m	2019 £m
Business closure and sales costs ¹	(32.0)	(23.1)
Impairment of goodwill and other assets ²	–	(47.8)
Environmental Waste contract termination provision ³	–	(26.8)
Impairment of ERP computer software ⁴	(4.7)	(7.3)
Reversal of impairment of ERP computer software ⁴	3.1	–
Fair value impairment of assets held for sale – note 23	–	(8.4)
Loss on disposal of subsidiaries, joint ventures and other assets, with associated fees ⁵	–	(7.0)
Total charge before tax	(33.6)	(120.4)

¹ Following the announcement of the Group's intention to exit parts of the Group, a number of charges have been recognised. These include costs of £14.8m in Property, £1.6m in Facilities Management and £2.1m in Kier Business Services during the period in relation to closure activities (FY19: £2.9m) as well as advisers' fees of £7.8m. A further £1.7m has been incurred in respect of impairing mothballed land. FY19 costs included £14.8m for exiting contracts, onerous contract charges of £3.6m, and an impairment of software of £5.5m.

² A non-cash impairment of goodwill (£8.0m) and other assets (£39.8m) was made in FY19 to the Group's previous Developments & Housing CGU, following the decision to dispose of various non-core divisions. See note 13 for the goodwill and other intangible impairments.

³ In securing the termination of its largest loss-making environmental waste contract in FY19, the Group has agreed to pay the local authority £27.3m over a period of six years. The Group agreed to this payment to help it exit the Environmental business by reducing a significant future central overhead that would have otherwise still been needed to service the loss-making contract.

⁴ A cost of £4.7m (FY19: £7.3m) was written-off due to software functionality which will no longer be utilised within the Group. Software previously impaired will instead be utilised and so this element of prior year impairment has been reversed.

⁵ FY19 cost comprises advisers' fees associated with divestments along with the loss on disposal of Unity (£1.9m), gain on the disposal of the Group's pension administration business (£2.5m) and loss on disposal of KHS Limited (£1.4m).

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

5 Adjusting items continued

e) Exceptional contract losses

The charges in relation to Broadmoor and Mersey Gateway were classified as adjusting items in FY19 on the basis of the highly material size of the charges incurred in the current and prior years. In the view of the Directors, both of these contract losses are also considered adjusting on the basis that they arose from contractual arrangements that would not typically be agreed to by the respective businesses.

	2020 £m	2019 £m
Broadmoor Hospital ¹	–	(43.5)
Mersey Gateway ²	–	(6.4)
Total charge before tax	–	(49.9)

¹ The Group incurred significant and one-off losses in FY19 relating to the Broadmoor Hospital development project in respect of future recoveries of costs from the client and other third parties.

² The Group incurred significant and one-off charges in FY19 in relation to the completion of the Mersey Gateway project.

f) Other adjusting items

Other adjusting items are analysed below:

	2020 £m	2019 £m
Net financing costs ¹	(5.2)	(1.7)
Central charges and other items ²	(8.9)	–
Procurement charge ³	(2.1)	(17.2)
Legal compliance ⁴	(7.6)	–
Pension increase exchange pension gain (net of fees) – note 9	–	14.6
GMP Pension charge – note 9	–	(6.1)
Total charge before tax	(23.8)	(10.4)

¹ Net financing costs relate to discount unwinding of acquired intangible assets and the recycling of foreign exchange from the translation reserve in respect of the Caribbean operations.

² Central charges and other items include a number of write offs that were recognised following a detailed review of certain carrying values. These are not considered to be part of the underlying performance of the business and so have been highlighted as adjusting items.

³ The Group incurred a material charge in FY19 in relation to certain aged receivables, driven by a management review of contractual terms following the impact of the changing credit market. This review was driven by the changing commercial landscape, as a result of which, management has determined that the assets should be written off. The charge is deemed an adjusting item on the basis of its size. In FY20, additional costs not identified in the prior year review were written off and a consistent treatment has been adopted.

⁴ The Group has incurred £7.6m of costs in relation to legal claims, including £4.2m of costs in complying with new fire compliance regulations. The legal claims relate to incidents that occurred out of period but were notified to the Group within the year and so are considered to be adjusting items.

g) Discontinued operations

Adjusting items within discontinued operations are analysed below:

	2020 £m	2019 £m
Fair value adjustment of Kier Living – note 23	(51.6)	–
Closure costs relating to non-core businesses ¹	(29.0)	–
Rationalisation costs ²	(2.6)	(0.3)
Inventory write-downs ³	(5.4)	–
Impairment of residential development sites ⁴	–	(50.0)
Loss on disposal of assets ⁵	–	(1.3)
Total charge before tax	(88.6)	(51.6)

¹ Costs incurred in respect of Living's decision to exit various regions.

² Rationalisation costs primarily consist of roles made redundant as a result of cost saving programmes and from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions following the announcement of the Strategic Review.

³ During the period a number of sites were closed resulting in costs being capitalised which are not recoverable through future sales, and hence an impairment charge has been taken against this inventory.

⁴ This impairment charge was triggered in FY19 by the Group's decision to dispose of its Living division and the subsequent decision to sell certain mothballed land banks. Previously the Group had intended to develop these sites and had therefore maintained a carrying value of these assets above their market valuations at £60.0m, on a development value basis.

⁵ Loss on disposal in FY19 of Living's shared equity portfolio (£1.3m).

h) Adjusted cash flow

	2020 £m	2019 £m
Reported cash flow from operating activities	(113.2)	(124.4)
Cash outflow from operating activities (adjusting items)	93.5	60.8
Adjusted cash outflow from operating activities	(19.7)	(63.6)

6 COVID-19

The COVID-19 pandemic has had a significant impact on the 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.
- 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.2,000 employees through the period. As at 31 July 2020 no colleagues remained 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 on the Group, including the actions detailed above, has been considered in the preparation of these financial statements. These considerations have included assessing the impact of the pandemic in the following areas:

- Quantification of costs in relation to COVID-19
- Critical accounting estimates and judgements
- Going concern assessment
- Goodwill impairment assessment
- Classification of Tempsford Hall asset
- Classification of assets held for sale
- Recognition and disclosure of Government grants
- Calculation of expected credit losses

Classification of costs in relation to COVID-19

The Group has incurred a number of one-off, non-recurring costs in relation to COVID-19 which have had a detrimental impact on the results of the Group for the year ended 30 June 2020. Although these costs meet the definition of an adjusting item in accordance with the Group's adjusting items accounting policy set out in note 1, management has taken into account the guidance issued by the Financial Reporting Council ("FRC") in May 2020 and after careful consideration has decided to not classify these as adjusting items.

The impact of these items is as follows:

	2020 £m
Direct COVID-19 costs	35.3
Holiday pay accrual	10.0
Total before tax	45.3

Direct COVID-19 costs are analysed as follows:

	2020 £m
Incremental direct costs	15.3
Costs relating to staff on furlough/isolation	3.8
Property provisions	8.0
Settlement adjustments	4.6
Other	3.6
Total before tax	35.3

Incremental direct costs – the Group has incurred a number of incremental direct costs in order to enable it to continue to work through the pandemic. These costs include additional Personal Protective Equipment, additional mobilisation and demobilisation costs in relation to work that ceased during the period of lockdown, and costs to enable effective social distancing, such as additional portacabins, additional transport and the inefficiencies arising from operating within the new operating procedures.

Costs relating to staff on furlough/isolation – whilst the Group has utilised the furlough scheme, a number of costs associated with furloughed staff were not able to be reclaimed. These costs included social security costs and vehicles and plant allocated to those furloughed individuals. In addition, staff who were isolating as a result of COVID-19 were not covered by the scheme.

Property provisions – the uncertainty in the property market as a result of COVID-19 has caused property valuations to fall, which has had a knock-on effect on the valuation of development stock and the investment property held in joint ventures.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

6 COVID-19 continued

Settlement adjustments – one of the impacts of COVID-19 has been the additional risk created in respect of collecting outstanding debtor balances. The Group focused on the collection of outstanding debts during the pandemic and in securing the cash agreed to a settlement adjustment in total of £4.6m.

In addition to the direct costs, the Group has also incurred a significant increase in its holiday pay accrual. During the period of lockdown employees took minimal holiday, either due to being on furlough or not being able to travel. The Group amended its policy to allow additional holiday to be carried forward into the next holiday year and as a result an additional holiday pay accrual of £10.0m was required.

The Group has also incurred incremental indirect costs as a result of COVID-19 which have not been included within the table above. For example, the impact on the valuation of contract work-in-progress and the recoverability of receivables.

Critical accounting estimates and judgements, including going concern and goodwill impairment

COVID-19 has introduced unprecedented economic uncertainty and has led to increased uncertainty particularly in forecasting future financial performance. A full reforecasting exercise was performed in July 2020 which incorporated the expected impact of COVID-19 on future periods, and these forecasts have been used in assessing going concern and goodwill impairment amongst other things. However, given the increased uncertainty that COVID-19 has brought to forecasting, there has been significant judgement applied when performing this exercise.

Additionally, given the level of judgement and estimation involved in assessing the future profitability of contracts, it is reasonably possible that outcomes within the next financial year may be different from management's assumptions and could require a material adjustment to the carrying amounts of contract assets and onerous contract provisions.

Classification of assets

In December 2019, the Group assessed that it had met the criteria of IFRS 5 to hold its Living business as an asset held for sale and to present the results of that business as discontinuing operations. Following the UK being put into lockdown in March 2020, the formal sale process was put on hold although informal discussions continued with interested parties. The Board's commitment to selling the business remains and it is considered highly probable that this will take place in the next six to twelve months. As a result, management has continued to classify the business as an asset held for sale in these financial statements.

However, due to the uncertainties in the market resulting from COVID-19 the decision has been taken to impair the fair value of the disposal group to £110.0m, resulting in an impairment of £51.6m being charged to the income statement.

One of the management decisions taken in response to COVID-19 was to accelerate the closure of its former headquarters, Tempsford Hall. As at 30 June 2020 the property had been vacated and mothballed. The property has been transferred from property, plant and equipment to investment properties and a valuation exercise performed to ascertain its fair value. As a result, an impairment of £5.4m has been recorded in the income statement.

The Foley Street property remains vacant and although it is being actively marketed, the COVID-19 pandemic has meant that the Central London property market remains subdued. Management has reassessed the onerous lease provision that has been made against Foley Street and has concluded that the property is likely to be let within 12 months. The market rent in the onerous lease calculation has also been updated to reflect the latest best estimate.

Government grants

During the year, the Group received Government grants in the form of the Coronavirus Job Retention Scheme ("CJRS"), a scheme put in place to help businesses through the ongoing COVID-19 situation.

Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. During the year the Group claimed £9.0m through this scheme. The CJRS income reflects the costs incurred in the year ended 30 June 2020 that are eligible to be included in CJRS grant claims to the extent the Group considers there to be reasonable certainty that the grant will be received.

Both the benefits of the CJRS and the temporary salary reductions have not been included in the table above.

Deferral of HMRC payments

During the period the Group was able to defer payment of both its VAT and PAYE/NI liabilities that arose during the fourth quarter of the year.

£25.1m of VAT has been deferred and is payable by 31 March 2021. A further £54.7m of tax liabilities are subject to a Time To Pay agreement with HMRC with the amount due to be cleared by the end of the 2021 financial year.

7 Finance income and costs

	2020 £m	2019 ¹ £m
Finance income		
Interest receivable on bank deposits	0.3	0.1
Interest receivable on loans to related parties ²	6.4	–
Interest receivable on corporation tax	–	0.1
	6.7	0.2
Finance costs		
Interest payable and fees on bank overdrafts and loans	(2.3)	(3.5)
Interest payable on borrowings	(22.6)	(21.2)
Interest payable on leases (2019: Interest payable on finance leases)	(7.2)	(0.2)
Discount unwind ³	(1.7)	(1.9)
Net interest on net defined benefit obligation	0.7	0.6
Recycling of translation reserve	(3.3)	–
Foreign exchange losses on foreign denominated borrowings	(2.3)	(4.3)
Fair value gains on cash flow hedges recycled from Other Comprehensive Income	2.3	4.3
	(36.4)	(26.2)
Net finance costs	(29.7)	(26.0)

¹ Comparative information has been re-presented to classify the Living division as a discontinued operation, which is held for sale at 30 June 2020, see note 23.

² Includes £5.6m (2019: £nil) payable from discontinued operations.

³ Unwind of discount in respect of acquired intangible assets.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

8 Information relating to Directors and employees

	Note	2020 No.	2019 ¹ No.
Monthly average number of people employed during the year including Executive Directors was:			
United Kingdom		13,584	17,092
Rest of world		1,585	1,686
		15,169	18,778
		£m	£m
Group staff costs are as follows:			
United Kingdom		686.5	850.7
Rest of world		20.6	17.4
		707.1	868.1
Comprising:			
Wages and salaries		618.6	766.8
Social security costs		56.1	73.4
Defined benefit pension scheme net gains (2019 includes an adjusting net gain of £10.1m)	9	(0.5)	(10.3)
Contributions to defined contribution pension schemes	9	27.5	31.0
Share-based payments charge	28	5.4	7.2
		707.1	868.1

The amounts disclosed above are in relation to the entirety of the Group's Directors and employees, including those employed by the parts of the business classified as discontinued operations.

Information relating to Directors' emoluments, pension entitlements, share options and LTIP interests appears in the Directors' Remuneration Report on pages 101 to 121. Redundancy costs incurred during the year of £29.5m (2019: £38.4m) have been classed as an adjusting item, see note 5.

During the year the Group received Government grants in the form of the Coronavirus Job Retention Scheme ("CJRS"), a scheme put in place to help businesses through the ongoing COVID-19 situation.

Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. During the year the Group claimed £9.0m through this scheme. The CJRS income reflects the costs incurred in the year ended 30 June 2020 that are eligible to be included in CJRS grant claims to the extent the Group considers there to be reasonable certainty that the grant will be received. The income has been allocated across cost of sales and administrative expenses in the income statement to reduce the associated costs.

¹ The comparative figures have been restated to include £16.2m of non-UK staff costs not previously disclosed. These costs were included within administrative expenses in the income statement. No restatement to the comparative monthly average number of people employed during the year was required.

9 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as described below.

For the defined benefit schemes, the assets of all schemes 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 schemes are established under UK trust law and have a corporate trustee that is required to run the schemes in accordance with the schemes' Trust Deed and Rules and to comply with all relevant legislation. Responsibility for the governance of the schemes lies with the Trustees.

The Group has agreed deficit recovery plans with the trustees of each of its defined benefit schemes which constitute minimum funding requirements for the purposes of IFRIC 14. These minimum funding requirements do not give rise to any additional liabilities on the Group's balance sheet as the Group has determined that it has a right to benefit from any surplus created by overpaid contributions, through either a reduction in future contributions or refunds of the surpluses on winding up of the schemes. Details of the contributions agreed for each of the schemes are provided in the individual scheme information sections below.

The pension obligations of the Group are valued separately for accounting and funding purposes. The accounting valuations under IAS 19 require 'best estimate' assumptions to be used whereas the funding valuations use more prudent assumptions. A further difference arises from the differing dates of the valuations. The accounting pension deficit or surplus is calculated at the balance sheet date (30 June) each year, whereas the actuarial valuations are carried out on a triennial basis at 31 March, or in the case of one scheme, 31 December. The differing bases and timings of the valuations can result in materially different pension deficit amounts. The date of the latest triennial funding valuation for each scheme is noted in the individual scheme information sections below.

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, amounts charged to the income statement for the year ended 30 June 2019 included a one-off charge of £6.1m in respect of GMP equalisation which has been treated as an adjusting item.

During the year ended 30 June 2019, the Group launched a member options exercise, offering a Pension Increase Exchange ('PIE') to members of the Kier Group Pension Scheme and the Mouchel Business Services Limited Pension Scheme. The initiative was carried out with support from the Trustees of the pension schemes, in order to provide more flexibility and choice for members, reduce risk, and reduce cost in the Group's defined benefit pension schemes. The PIE offering was introduced as follows:

- A bulk PIE exercise, offering members who are already drawing a pension a one-off increase in pension in lieu of future annual increases on part of their pension, supported with independent financial advice paid for by Kier. The terms are such that the IAS 19 pension liabilities are reduced if pensioners take this option, with the gain of £6.8m recognised as a one-off income credit during the year to 30 June 2019.
- PIE option at the point of retirement as 'business as usual' on the same terms as the bulk exercise. Kier will pay for members to take financial advice at point of retirement, including on the PIE at retirement option. A reduction in IAS 19 pension liabilities can be recognised based on an assumed rate of future take-up. The PIE at retirement option resulted in a further income credit of £9.3m recognised during the year to 30 June 2019.

A combined gain, for both the bulk PIE exercise and the introduction of the at retirement option, of £16.1m was recognised as an adjusting item in the year to 30 June 2019.

Kier bore the costs of implementing the PIE exercises and incurred a cost of £1.5m in the year to 30 June 2019 which was treated as an adjusting item.

The Group incurred fees totalling £4.0m in respect of the running and administration of the defined benefit schemes.

Kier Group scheme

This is the principal scheme and includes a defined benefit section and a defined contribution section. 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 most recent triennial valuation of the Kier Group scheme was carried out by the trustees' independent actuaries as at 31 March 2019. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit.

The contributions paid during the year were £12.4m (2019: £12.2m) which were all in relation to the past service deficit. On 18 September 2020, the Group agreed a revised deficit recovery plan with the scheme's trustees. Under the new agreement, the previously agreed one-off lump sum payment that was due to be paid in the year ended 30 June 2021, is no longer payable. Based on the revised payment plan, the Group expects to make the following contributions over the next five years:

	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Deficit contributions	13.3	0.5	0.5	0.5	0.5

In addition to the above contributions, the trustees and the Group have agreed that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets. The Group has also agreed to meet the scheme's expenses including the Pension Protection Fund levy.

As at 30 June 2020, the scheme had 2,441 deferred members (2019: 2,580), and 2,836 retirees (2019: 2,836).

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Notes to the consolidated financial statements (continued)

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9 Retirement benefit obligations continued

The IAS 19 accounting valuation of the Kier Group scheme at 30 June 2020 indicated that the scheme's assets exceeded its liabilities. The Group has recognised the surplus as a retirement benefit pension asset on its balance sheet under IAS 19 and IFRIC 14, as the Group has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surplus on winding up of the scheme.

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 and is closed to future accrual. The most recent triennial valuation of the May Gurney scheme was carried out by the trustees' independent actuaries as at 31 March 2019. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit.

The deficit contributions payable in the year ended 30 June 2020 amounted to £2.0m (2019: £1.8m). On 18 September 2020, the Group agreed a revised deficit recovery plan with the trustees of the May Gurney scheme. Under the new agreement, the previously agreed one-off lump sum payment that was due to be paid in the year ended 30 June 2021, is no longer payable. Based on the revised payment plan, the Group expects to make the following contributions over the next five years:

	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Deficit contributions	3.0	1.8	1.8	1.8	1.8

In addition to the above contributions, the trustees and the Group have agreed that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets. The Group has also agreed to meet the scheme's expenses including the Pension Protection Fund levy.

As at 30 June 2020, the scheme had 296 deferred members (2019: 316) and 288 retirees (2019: 280).

Acquired with the Mouchel Group

The Group acquired defined benefit pension schemes with the Mouchel Group. The Mouchel figures comprise four individual pension schemes, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme, which have been grouped together because they were purchased as part of the Mouchel Group. The composition of these schemes has not changed since the prior year.

These schemes were closed to new entrants in 2001 and were closed to future accrual between 2010 and 2017, with the exception of the EM Highways Prudential Platinum Scheme which remains open to future accrual.

The EM Highways Prudential Platinum Scheme is a multi-employer scheme, however, Kier's share is separately identifiable. Therefore, the charge for the period is determined by reference to the change in valuation of this separate section. The EM Highways scheme was formally valued by independent actuaries as at 31 December 2018. At the valuation date the assets of the pension scheme were greater than the technical provisions and therefore the scheme had a funding surplus. The trustees therefore agreed a new schedule of contributions with Kier in January 2020 that no longer required contributions to the past deficit.

The most recent triennial valuations of the remaining Mouchel schemes were carried out by the trustees' independent actuaries as at 31 March 2019. At the valuation date the assets of each of the pension schemes were less than the respective technical provisions and therefore the schemes were in deficit. The triennial valuations as at 31 March 2019 have not yet been finalised.

The contributions payable in the year ended 30 June 2020 amounted to £9.4m (2019: £9.0m) which included contributions of £9.2m (2019: £8.6m) to fund the past service deficit. On 18 September 2020, the Group agreed revised deficit recovery plans with the trustees of the Mouchel Superannuation Fund, Mouchel Staff Pension Scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section). Under the new agreements, the previously agreed one-off lump sum payments that were due to be paid in the year ended 30 June 2021, are no longer payable. Based on the revised payment plans the Group expects to make the following combined contributions over the next five years:

	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Deficit contributions	9.6	6.5	6.5	6.5	6.5

In addition to the above contributions, the trustees and the Group have agreed that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets. The Group has also agreed to meet the schemes' expenses including the Pension Protection Fund levy.

As at 30 June 2020, the schemes had a total of 18 active members (2019: 13), 1,766 deferred members (2019: 1,839), and 1,583 retirees (2019: 1,546).

The IAS 19 accounting valuation at 30 June 2020 of the Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme indicated that the assets of each of these schemes exceeded their respective scheme liabilities. The Group has recognised these surpluses as retirement benefit assets on its balance sheet under IAS 19 and IFRIC 14, as the Group has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surpluses on winding up of the schemes.

Acquired with the McNicholas Group

The McNicholas defined benefit pension scheme was acquired with the McNicholas Group in the year ended 30 June 2018. The scheme is closed to new entrants and no benefits have accrued since 30 April 2012.

The most recent triennial valuation of the McNicholas scheme was carried out by the trustees' independent actuaries as at 31 March 2017.

The deficit contributions payable in the year ended 30 June 2020 amounted to £1.2m (2019: £1.2m). In June 2018, the Group agreed a revised deficit recovery plan with the trustees of the McNicholas scheme. Based on this payment plan the Group expects to make the following contributions over the next five years:

	2021 £m	2022 £m	2023 £m	2024 £m	2025 £m
Deficit contributions	1.2	1.0	–	–	–

In addition to the above contributions, all of the scheme's expenses including the Pension Protection Fund levy are met by the Group.

As at 30 June 2020, the scheme had a total of 57 deferred members (2019: 62) and 79 retirees (2019: 79).

Other defined contribution schemes

Contributions are also made to a number of other defined contribution arrangements. The Group paid contributions to these arrangements of £27.5m (2019: £31.0m) during the year.

The Group 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.

IAS 19 'Employee Benefits' disclosures

The Group recognises any actuarial gains or losses through the statement of comprehensive income as required under IAS 19.

The average weighted duration of the schemes' liabilities is 19 years (2019: 20 years).

The principal assumptions used by the independent qualified actuaries are shown below. This set of assumptions was used to value all of the defined benefit schemes.

	2020 %	2019 %
Rate of increase in pensions payments liable for Limited Price Indexation:		
– RPI subject to a minimum of 0% and a maximum of 5%	2.8	3.0
– RPI subject to a minimum of 0% and a maximum of 2.5%	2.1	2.2
Rate of general increases in pensionable salaries	2.9	3.1
Discount rate	1.6	2.3
Inflation rate (Retail Price Index (RPI))	2.9	3.1
Inflation rate (Consumer Price Index (CPI))	2.0	2.0

The mortality assumptions used were as follows:

	2020 years	2019 years
Life expectancy for a male/female currently aged 60		
– Kier Group scheme	27.4 / 29.0	26.8 / 28.4
– May Gurney scheme	27.2 / 29.8	26.6 / 28.6
– Mouchel schemes (weighted average of the 4 schemes)	27.3 / 29.3	26.1 / 27.9
– McNicholas scheme	26.5 / 28.6	26.0 / 28.0
Life expectancy for a male/female member aged 60, in twenty years time		
– Kier Group scheme	28.7 / 30.5	28.1 / 30.3
– May Gurney scheme	28.7 / 30.8	28.1 / 30.2
– Mouchel schemes (weighted average of the 4 schemes)	28.4 / 30.3	27.5 / 29.5
– McNicholas scheme	28.0 / 30.2	27.5 / 29.6

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9 Retirement benefit obligations continued

The assets, liabilities and net pension liabilities for the defined benefit arrangements are shown below. The assets are invested with professional investment managers and are measured based on quoted market valuations at the balance sheet date, except for land and property investments that are not held in unitised funds, which are valued based on the latest available professional valuation in accordance with RICS standards.

	2020					2019				
	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Equities	426.4	14.6	77.7	–	518.7	472.9	18.1	91.8	–	582.8
Corporate bonds	815.9	5.3	92.8	19.9	933.9	369.2	–	38.6	7.9	415.7
Cash	16.0	12.4	90.4	0.4	119.2	64.0	3.1	113.4	0.1	180.6
Land and property	–	–	2.9	0.1	3.0	–	–	5.1	0.1	5.2
Absolute return	42.2	10.4	23.6	–	76.2	283.7	13.4	40.6	–	337.7
Annuity policies	–	1.1	–	–	1.1	–	1.5	–	–	1.5
Multi-asset	–	6.0	31.8	7.1	44.9	–	8.0	42.3	17.9	68.2
Liability-driven investments	–	33.7	207.2	–	240.9	–	36.9	160.8	–	197.7
Total market value of assets	1,300.5	83.5	526.4	27.5	1,937.9	1,189.8	81.0	492.6	26.0	1,789.4
Present value of liabilities	(1,210.7)	(88.7)	(564.5)	(35.2)	(1,899.1)	(1,150.4)	(79.6)	(507.2)	(32.7)	(1,769.9)
Surplus/(deficit)	89.8	(5.2)	(38.1)	(7.7)	38.8	39.4	1.4	(14.6)	(6.7)	19.5
Related deferred tax (liability)/asset	(17.1)	1.0	7.2	1.5	(7.4)	(6.7)	(0.2)	2.5	1.1	(3.3)
Net pension asset/(liability)	72.7	(4.2)	(30.9)	(6.2)	31.4	32.7	1.2	(12.1)	(5.6)	16.2

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2020					2019				
	Kier Group £m	May Gurney £m	Mouchel £m	Mc-Nicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	Mc-Nicholas £m	Total £m
(Charged)/credited to operating profit in the income statement										
Current service cost	-	-	(0.2)	-	(0.2)	-	-	(0.3)	-	(0.3)
Past service gain/(cost)	-	-	-	-	-	10.8	(0.5)	(0.2)	(0.1)	10.0
Net interest on net defined benefit obligation	1.0	0.1	(0.3)	(0.1)	0.7	0.9	-	(0.1)	(0.2)	0.6
Pension income/(expense) recognised in the income statement	1.0	0.1	(0.5)	(0.1)	0.5	11.7	(0.5)	(0.6)	(0.3)	10.3
Remeasurement in comprehensive loss										
Actual return in excess of that recognised in net interest	134.4	6.6	34.3	2.3	177.6	76.2	7.6	28.0	2.1	113.9
Actuarial losses due to changes in financial assumptions	(118.5)	(9.2)	(58.1)	(3.8)	(189.6)	(104.9)	(7.7)	(50.2)	(3.0)	(165.8)
Actuarial (losses)/gains due to changes in demographic assumptions	(3.9)	(2.4)	(27.5)	(0.6)	(34.4)	22.3	1.6	10.0	0.7	34.6
Actuarial gains/(losses) due to liability experience	25.0	(3.7)	18.9	-	40.2	(3.3)	(0.3)	(2.0)	-	(5.6)
Total amount recognised in full	37.0	(8.7)	(32.4)	(2.1)	(6.2)	(9.7)	1.2	(14.2)	(0.2)	(22.9)
Changes in the fair value of scheme assets										
Fair value at 1 July	1,189.8	81.0	492.6	26.0	1,789.4	1,120.0	75.1	463.4	22.7	1,681.2
Interest income on scheme assets	26.8	1.8	11.2	0.6	40.4	30.8	2.0	12.9	0.6	46.3
Remeasurement gains on scheme assets	134.4	6.6	34.3	2.3	177.6	76.2	7.6	28.0	2.1	113.9
Contributions by the employer	12.4	2.0	9.4	1.2	25.0	12.2	1.8	9.0	1.2	24.2
Net benefits paid out	(62.9)	(7.9)	(21.1)	(2.6)	(94.5)	(49.4)	(5.5)	(20.7)	(0.6)	(76.2)
Fair value at 30 June	1,300.5	83.5	526.4	27.5	1,937.9	1,189.8	81.0	492.6	26.0	1,789.4
Changes in the present value of the defined benefit obligation										
Fair value at 1 July	(1,150.4)	(79.6)	(507.2)	(32.7)	(1,769.9)	(1,094.8)	(76.2)	(472.2)	(30.1)	(1,673.3)
Current service cost	-	-	(0.2)	-	(0.2)	-	-	(0.3)	-	(0.3)
Interest expense on scheme liabilities	(25.8)	(1.7)	(11.5)	(0.7)	(39.7)	(29.9)	(2.0)	(13.0)	(0.8)	(45.7)
Past service gain/(cost)	-	-	-	-	-	10.8	(0.5)	(0.2)	(0.1)	10.0
Actuarial losses due to changes in financial assumptions	(118.5)	(9.2)	(58.1)	(3.8)	(189.6)	(104.9)	(7.7)	(50.2)	(3.0)	(165.8)
Actuarial (losses)/gains due to changes in demographic assumptions	(3.9)	(2.4)	(27.5)	(0.6)	(34.4)	22.3	1.6	10.0	0.7	34.6
Actuarial gains/(losses) due to liability experience	25.0	(3.7)	18.9	-	40.2	(3.3)	(0.3)	(2.0)	-	(5.6)
Net benefits paid out	62.9	7.9	21.1	2.6	94.5	49.4	5.5	20.7	0.6	76.2
Fair value at 30 June	(1,210.7)	(88.7)	(564.5)	(35.2)	(1,899.1)	(1,150.4)	(79.6)	(507.2)	(32.7)	(1,769.9)
Amounts included in the balance sheet										
Fair value of scheme assets	1,300.5	83.5	526.4	27.5	1,937.9	1,189.8	81.0	492.6	26.0	1,789.4
Net present value of the defined benefit obligation	(1,210.7)	(88.7)	(564.5)	(35.2)	(1,899.1)	(1,150.4)	(79.6)	(507.2)	(32.7)	(1,769.9)
Net surplus/(deficit)	89.8	(5.2)	(38.1)	(7.7)	38.8	39.4	1.4	(14.6)	(6.7)	19.5
Related deferred tax (liability)/asset	(17.1)	1.0	7.2	1.5	(7.4)	(6.7)	(0.2)	2.5	1.1	(3.3)
Net pension asset/(liability)	72.7	(4.2)	(30.9)	(6.2)	31.4	32.7	1.2	(12.1)	(5.6)	16.2

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For the year ended 30 June 2020

9 Retirement benefit obligations continued

The net surplus/(deficit) above is split between retirement benefit assets and obligations in the statement of financial position as follows:

	2020					2019				
	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Retirement benefit assets	89.8	–	9.7	–	99.5	39.4	1.4	17.6	–	58.4
Retirement benefit obligation	–	(5.2)	(47.8)	(7.7)	(60.7)	–	–	(32.2)	(6.7)	(38.9)
Net surplus/(deficit)	89.8	(5.2)	(38.1)	(7.7)	38.8	39.4	1.4	(14.6)	(6.7)	19.5

The movements in the net retirement benefit surplus/(deficit) are summarised as follows:

	2020					2019				
	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Opening net surplus/(deficit)	39.4	1.4	(14.6)	(6.7)	19.5	25.2	(1.1)	(8.8)	(7.4)	7.9
Current service cost	–	–	(0.2)	–	(0.2)	–	–	(0.3)	–	(0.3)
Past service gain/(cost)	–	–	–	–	–	10.8	(0.5)	(0.2)	(0.1)	10.0
Net interest on net defined benefit obligation	1.0	0.1	(0.3)	(0.1)	0.7	0.9	–	(0.1)	(0.2)	0.6
Contributions by the employer	12.4	2.0	9.4	1.2	25.0	12.2	1.8	9.0	1.2	24.2
Actual return in excess of that recognised in net interest	134.4	6.6	34.3	2.3	177.6	76.2	7.6	28.0	2.1	113.9
Actuarial losses due to changes in financial assumptions	(118.5)	(9.2)	(58.1)	(3.8)	(189.6)	(104.9)	(7.7)	(50.2)	(3.0)	(165.8)
Actuarial (losses)/gains due to changes in demographic assumptions	(3.9)	(2.4)	(27.5)	(0.6)	(34.4)	22.3	1.6	10.0	0.7	34.6
Actuarial gains/(losses) due to liability experience	25.0	(3.7)	18.9	–	40.2	(3.3)	(0.3)	(2.0)	–	(5.6)
Closing net surplus/(deficit)	89.8	(5.2)	(38.1)	(7.7)	38.8	39.4	1.4	(14.6)	(6.7)	19.5

History of experience gains and losses for defined benefit schemes in aggregate:

	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
Fair value of scheme assets	1,937.9	1,789.4	1,681.2	1,636.8	1,560.6
Net present value of the defined benefit obligation	(1,899.1)	(1,769.9)	(1,673.3)	(1,721.4)	(1,648.4)
Net surplus/(deficit)	38.8	19.5	7.9	(84.6)	(87.8)
Related deferred tax (liability)/asset	(7.4)	(3.3)	(1.3)	14.4	15.8
Net pension asset/(liability)	31.4	16.2	6.6	(70.2)	(72.0)
Difference between expected and actual return on scheme assets	177.6	113.9	19.2	71.9	210.2
Experience gains/(losses) on scheme liabilities	40.2	(5.6)	(0.7)	0.1	–

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 as described below.

The following Schemes, Kier Group Pension Scheme, May Gurney Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section), Mouchel Superannuation Fund and Mouchel Staff Pension Scheme (the "Schemes") have aligned their investments so that the liability hedging instruments are managed by BMO including cash, physical gilts, gilt repurchase agreements as well as interest and inflation swaps. In combination, this portfolio is designed to hedge the Scheme's sensitivity to changes in interest rate and inflation by between 74% and 100% of the value of the technical provisions liabilities, depending on the scheme. The Kier Group Pension Scheme also has a currency hedging strategy in place with SSGA. As at 31 March 2020 (the scheme's year-end date), this hedges 50% of the Kier Group Pension Scheme's exposure to US dollars, euros, yen and Canadian dollars for two equity managers. In addition, the scheme hedges 100% exposure to two global property and one hedge fund allocation, all denominated in US dollars.

Pension sensitivity

The following tables show the change in the net surplus or deficit arising from a change in the significant actuarial assumptions used to determine the retirement benefit obligations:

Kier Group scheme:

	2020		2019	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	49.5	(52.6)	46.7	(49.6)
Inflation rate (+/-0.25%)	(41.7)	36.8	(45.1)	42.5
Members assumed to be one year older/younger in age (+/-1 year)	45.3	(39.8)	41.2	(41.6)

May Gurney defined benefit scheme:

	2020		2019	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	4.0	(4.2)	3.4	(3.6)
Inflation rate (+/-0.25%)	(2.8)	2.6	(3.3)	3.1
Members assumed to be one year older/younger in age (+/-1 year)	3.5	(3.5)	2.8	(2.8)

Mouchel defined benefit schemes:

	2020		2019	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	25.0	(26.7)	22.2	(23.6)
Inflation rate (+/-0.25%)	(17.5)	16.8	(22.7)	21.3
Members assumed to be one year older/younger in age (+/-1 year)	20.8	(21.1)	17.5	(17.6)

McNicholas defined benefit scheme:

	2020		2019	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	1.5	(1.6)	1.4	(1.5)
Inflation rate (+/-0.25%)	(0.5)	0.6	(0.8)	0.8
Members assumed to be one year older/younger in age (+/-1 year)	1.5	(1.5)	1.3	(1.3)

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 year.

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For the year ended 30 June 2020

10 Taxation

Taxation in respect of continuing operations is analysed below. Taxation that is relevant to discontinued operations is considered within note 23.

(a) Recognised in the income statement

	2020 £m	2019 ¹ £m
Current tax expense credit		
UK corporation tax	2.8	2.7
Adjustments in respect of prior years	(2.0)	2.9
Foreign tax relief	–	(0.3)
	0.8	5.3
Foreign tax suffered	–	2.4
Total current tax	0.8	7.7
Deferred tax (credit)/expense		
Origination and reversal of temporary differences	(49.7)	(45.0)
Adjustments in respect of prior years	(3.6)	(2.3)
Rate change effect on deferred tax	(0.9)	3.9
Total deferred tax	(54.2)	(43.4)
Total tax credit in the income statement	(53.4)	(35.7)
Reconciliation of effective tax rate		
Loss before tax	(225.3)	(229.5)
Add: tax on joint ventures included above	(1.4)	–
Adjusted loss before tax	(226.7)	(229.5)
Income tax at UK corporation tax rate of 19.0% (2019: 19.0%)	(43.1)	(43.6)
Non-deductible expenses and unusable tax losses	3.2	4.9
Income not taxable	–	(1.8)
Effect of tax rates in foreign jurisdictions	–	1.3
Group relief not paid for with AHFS companies	(10.2)	(3.0)
Effect of change in UK corporation tax rate	(0.9)	4.0
Share-based payment deduction	1.0	1.4
Capital gains not taxed	–	0.1
Utilisation of tax losses	0.8	0.4
Adjustments in respect of prior years	(5.6)	0.6
Total tax (including joint ventures)	(54.8)	(35.7)
Tax on joint ventures	1.4	–
Group tax credit	(53.4)	(35.7)

¹ Comparative information has been re-presented to classify the Living division as a discontinued operation, which is held for sale at 30 June 2020, see note 23.

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. However, the Group does operate and pay taxes in jurisdictions where the tax rate is higher than the UK's statutory rate. 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 Group tax credit of £53.4m (2019: £35.7m) shown in the table above equates to an effective tax rate of 24.2% (2019: 15.6%) on adjusted loss before tax of £226.7m (2019: £229.5m). This effective rate is different from the standard rate of corporation tax of 19.0% (2019: 19.0%) due to items shown in the table above. The non-deductible expenses included before adjusting items mainly relate to depreciation on non-qualifying assets, entertaining and legal and professional fees not eligible for tax relief.

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 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 exposure. At the balance sheet date, a deferred tax liability of £2.0m (2019: £3.4m) has been recognised in respect of uncertain tax positions.

The net credit of £5.6m (2019: £0.6m charge) in respect of prior years' results arise from differences between the estimates of taxation included in the previous years' 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 cash received of £5.9m during the year (2019: £10.1m).

(c) Recognised in the statement of comprehensive income

	2020 £m	2019 £m
Deferred tax charge/(credit) (including effect of change in tax rate)		
Fair value movements on cash flow hedging instruments	0.7	0.7
Actuarial losses on defined benefit pension schemes	(6.4)	(3.9)
Total tax credit in the statement of comprehensive income	(5.7)	(3.2)

The deferred tax movements on the defined benefit pension scheme comprised of (£1.1m) (2019: (£3.9m)) on current year actuarial movements and (£5.3m) (2019: £nil) in respect of the movements in tax rates at which deferred tax is being recognised.

(d) Factors that may affect future tax charges

The deferred tax balance as at the year end has been recognised at 19.0% (2019: 17%), which is the enacted corporation tax rate effective from 1 April 2020.

(e) Tax losses

At the balance sheet date, the Group has unused tax losses of £667.9m (2019: £514.6m) available for offset against future profits. A deferred tax asset has been recognised on £497.8m (2019: £348.5m) of these 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.

11 Dividends

Amounts recognised as distributions to owners of the parent in the year:

	2020 £m	2019 £m
Final dividend for the year ended 30 June 2019 of nil pence (2018: 46.0 pence)	–	44.7
Interim dividend for the year ended 30 June 2020 of nil pence (2019: 4.9 pence)	–	7.9
	–	52.6

The Group's focus on cash generation and reducing net debt required a suspension in dividend payments for the second half of FY19 and the whole of FY20.

The parent company of the Group, Kier Group plc, is a non-trading holding company which derives its distributable reserves in part from dividends received from its subsidiaries. In determining the level of dividend payable in any year, in addition to the stated policy, the Board considers a number of other factors, including the following:

- the level of distributable reserves in the parent company, Kier Group plc;
- the level of distributable reserves in Kier Group plc's subsidiaries that are available to be distributed to Kier Group plc;
- the availability of cash resources;
- the Group's borrowing covenants;
- future cash commitments and investment plans to support the long-term growth of the Group; and
- potential strategic opportunities under consideration.

The Board reviews the level of distributable reserves in the parent company at least twice a year ahead of announcing proposed interim and final dividends.

Distributable reserves can be significantly impacted by movements in pension liabilities. The reserves of Kier Group plc are not directly affected by these movements as the pension surpluses and liabilities are on the balance sheets of a certain number of the Company's subsidiaries. However, movements in the pension liabilities do have an effect on the level of distributable reserves in Kier Group plc's subsidiaries that are available to be paid up to the parent. Actuarial gains only increase the distributable reserves to the extent that they represent reversals of previous actuarial losses, otherwise they are treated as unrealised and are not distributable.

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12 Earnings/(losses) per share

A reconciliation of loss and earnings per share, as reported in the income statement, to profit and earnings per share before adjusting items is set out below. The disclosure is made to illustrate the impact of adjusting items.

	Basic £m	2020 Diluted £m	Basic £m	2019 ¹ Diluted £m
(Loss)/earnings				
Continuing operations				
Loss (after tax and minority interests), being net losses attributable to equity holders of the parent	(171.9)	(171.9)	(194.2)	(194.2)
Impact of adjusting items net of tax²:				
Amortisation of intangible assets - net of tax credit of £4.5m (2019: £4.2m)	19.2	19.2	20.5	20.5
Acquisition discount unwind - net of tax credit of £0.3m (2019: £0.3m) ³	1.2	1.2	1.4	1.4
Other adjusting items - net of tax credit of £35.8m (2019: £51.4m)	176.2	176.2	213.1	213.1
Earnings from continuing operations before adjusting items	24.7	24.7	40.8	40.8
Discontinued operations				
(Losses)/earnings (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	(12.8)	(12.8)	36.2	36.2
Adjusting items from discontinued operations	(88.6)	(88.6)	(51.6)	(51.6)
Loss from discontinued operations	(101.4)	(101.4)	(15.4)	(15.4)
	Million	Million	Million	Million
Weighted average number of shares used for earnings per share	161.8	161.8	132.2	132.2

	Basic pence	2020 Diluted pence	Basic pence	2019 Diluted pence
(Loss)/earnings per share				
Continuing operations				
Loss (after tax and minority interests), being net losses attributable to equity holders of the parent	(106.2)	(106.2)	(146.9)	(146.9)
Impact of adjusting items net of tax²:				
Amortisation of intangible assets	11.9	11.9	15.5	15.5
Acquisition discount unwind ³	0.7	0.7	1.1	1.1
Other adjusting items	108.9	108.9	161.2	161.2
Earnings from continuing operations before adjusting items	15.3	15.3	30.9	30.9
Discontinued operations				
(Losses)/earnings (after tax and minority interests), being net losses attributable to equity holders of the parent	(7.9)	(7.9)	27.4	27.4
Adjusting items from discontinued operations	(54.8)	(54.8)	(39.0)	(39.0)
Loss from discontinued operations	(62.7)	(62.7)	(11.6)	(11.6)
Total (losses)/earnings per share				
Statutory	(168.9)	(168.9)	(158.5)	(158.5)
Before adjusting items²	7.4	7.4	58.3	58.3

¹ Comparative information has been re-presented to classify the Living division as a discontinued operation, which is held for sale at 30 June 2020, see note 23.

² See note 1 for reference to adjusting items.

³ Unwind of discount in respect of deferred consideration.

Under the terms of a fully underwritten rights issue, ordinary shareholders of the Company on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. The new shares were fully subscribed on 20 December 2018, resulting in proceeds on issue of £249.9m, net of expenses of £13.7m that were charged against the share premium account.

Options granted to employees under the Sharesave, CSAP and LTIP schemes are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required performance obligations would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the share option schemes are set out in note 28.

13 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software ¹ £m	Total £m
Cost				
At 1 July 2018	560.2	274.5	151.6	986.3
Additions	–	–	19.8	19.8
Disposals	(10.7)	(15.1)	(15.6)	(41.4)
Transfers to assets held for sale	(4.8)	–	(0.8)	(5.6)
At 30 June 2019	544.7	259.4	155.0	959.1
Additions ²	–	–	4.0	4.0
Disposals	–	–	(20.1)	(20.1)
Transfers to property, plant and equipment	–	–	(8.7)	(8.7)
Transfers to assets held for sale	(5.9)	–	(4.8)	(10.7)
At 30 June 2020	538.8	259.4	125.4	923.6
Accumulated amortisation and impairment				
At 1 July 2018	–	(92.8)	(31.3)	(124.1)
Charge for the year	–	(25.0)	(15.3)	(40.3)
Disposals	–	7.0	2.8	9.8
Impairment ³	(8.0)	(0.2)	(29.6)	(37.8)
At 30 June 2019	(8.0)	(111.0)	(73.4)	(192.4)
Charge for the year	–	(23.7)	(11.0)	(34.7)
Disposals	–	–	15.1	15.1
Transfers to assets held for sale	5.9	–	3.1	9.0
At 30 June 2020	(2.1)	(134.7)	(66.2)	(203.0)
Net book value				
At 30 June 2020	536.7	124.7	59.2	720.6
At 30 June 2019	536.7	148.4	81.6	766.7

¹ Computer software mainly relates to the Group's ERP implementation which was completed in FY19 and is being amortised.

² Included within additions is £3.1m of software which had previously been impaired, but is now being utilised and so the prior year impairment has been reversed.

³ As at 30 June 2019, following the Strategic Review, impairments were recognised of £8.0m to goodwill and £29.8m to other intangible assets.

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13 Intangible assets continued

Goodwill largely relates to the Infrastructure Services cash generating unit ("CGU") and has been built up through acquisitions, primarily MRBL Limited (Mouchel Group) (£299.2m), May Gurney Integrated Services PLC (£194.7m) and McNicholas Construction Holdings Limited (£42.8m). 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:

- North Tyneside Council – Cost £7.2m. Net book value £nil.
- Stewart Milne – Cost £1.0m. Net book value £0.1m.
- May Gurney Integrated Services plc – Cost £106.8m. Net book value £53.1m.
- MRBL Limited (Mouchel Group) – Cost £127.1m. Net book value £68.1m.
- McNicholas Construction (Holdings) Limited – Cost £12.1m. Net book value £1.9m.
- Kier Education Services Limited – Cost £2.8m. Net book value £nil.
- Certain business and assets of Babcock Civil Infrastructure Limited – Cost £1.6m. Net book value £1.4m.
- Solum Regeneration LLP joint venture – Cost £0.4m. Net book value £nil.
- Watford Health Campus LLP joint venture – Cost £0.4m. Net book value £0.1m.

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.

Carrying amounts of goodwill and intangible contract rights by CGU

	2020			2019		
	Goodwill £m	Intangible contract rights £m	Total £m	Goodwill £m	Intangible contract rights £m	Total £m
Infrastructure Services	516.3	122.5	638.8	516.3	145.8	662.1
Construction	20.4	0.2	20.6	20.4	0.3	20.7
Other	–	2.0	2.0	–	2.3	2.3
	536.7	124.7	661.4	536.7	148.4	685.1

For impairment testing purposes, the goodwill has been allocated to the above three CGUs, being the lowest level at which management monitors goodwill. Following a change in reporting structure, the Group has reallocated the carrying value of goodwill to these CGUs as disclosed in note 3. 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.

Goodwill allocated to the Construction CGU is not significant in comparison to the Group's total goodwill.

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. We have applied pre-tax discount rates to the cash flows for each CGU that are derived from the Group's weighted average cost of capital of 9.7% (2019: 10.1%).

The key assumptions in the value in use calculations are the forecast revenues and operating margins, the discount rates applied to future cash flows and the terminal growth rate assumptions applied.

Infrastructure Services CGU

Forecast revenue growth rates and operating profit margins are based on historical experience, adjusted for the impact of expected changes to contract portfolio and profitability. Revenue growth rates from year four onwards are considered reasonable in line with long-term inflation expectations for the UK. Based on the value in use calculation, these assumptions detailed below derived a recoverable amount for the Infrastructure Services CGU that is £32.6m above the carrying value of CGU assets.

The Infrastructure Services CGU impairment review is sensitive to changes in the following key assumptions: discount rate, revenue growth rate, operating margin and perpetual growth rates. Management considers that a reasonably possible change in any single assumption could give rise to an impairment of the carrying value of goodwill and intangibles.

Forecast revenue growth rates from FY21 to FY23 range from 6.2% to 25.1% which includes, in particular, the impact of the Group's HS2 contract. A reduction of 1.6% to the average growth rate would be required for headroom to be eliminated. A 0.5% reduction in growth rate in each year would reduce headroom by £10.5m, with a 5.0% reduction in growth rate each year resulting in an impairment of £71.5m.

A terminal revenue growth rate of 1.5% has been applied into perpetuity. This would need to reduce by 0.5% to eliminate headroom.

Forecast operating margins from FY21 to FY23 range from 3.7% to 4.1% (average 3.9%). A reduction of 0.6% in operating margin to 3.3% would be required to eliminate headroom. A 0.5% reduction in margins would result in a reduction in headroom of £25.3m.

A fixed operating margin of 4.1% has been applied into perpetuity. A reduction of 0.2% in margin to 3.9% would be required to eliminate headroom. A 0.5% reduction in operating margin would result in an impairment of £50.8m.

The pre-tax discount rate used is 11.7%. An increase in discount rate of 0.4% to 12.1% would eliminate headroom. A 0.5% increase in discount rate would result in an impairment of £8.1m.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

14 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Mining asset ⁴ £m	Total £m
Cost				
At 30 June 2018	74.5	94.9	4.8	174.2
Impact of adopting IFRS 15	–	(3.4)	–	(3.4)
At 1 July 2018	74.5	91.5	4.8	170.8
Additions	4.5	7.1	–	11.6
Disposals	(12.9)	(10.8)	–	(23.7)
Transfers ²	(3.9)	(8.0)	–	(11.9)
Currency realignment	–	0.3	–	0.3
At 30 June 2019	62.2	80.1	4.8	147.1
Impact of adopting IFRS 16 ³	(4.2)	(35.2)	–	(39.4)
At 1 July 2019	58.0	44.9	4.8	107.7
Additions	1.6	2.2	–	3.8
Disposals	(0.7)	(20.2)	–	(20.9)
Transfers ²	(22.9)	10.9	–	(12.0)
Currency realignment	–	0.2	–	0.2
At 30 June 2020	36.0	38.0	4.8	78.8
Accumulated depreciation and impairment				
At 30 June 2018	(17.8)	(60.2)	(4.6)	(82.6)
Impact of adopting IFRS 15	–	0.6	–	0.6
At 1 July 2018	(17.8)	(59.6)	(4.6)	(82.0)
Charge for the year	(2.2)	(13.1)	(0.2)	(15.5)
Impairment ¹	(4.1)	(5.9)	–	(10.0)
Disposals	7.3	5.9	–	13.2
Transfers ²	(2.1)	6.8	–	4.7
Currency realignment	–	(0.2)	–	(0.2)
At 30 June 2019	(18.9)	(66.1)	(4.8)	(89.8)
Impact of adopting IFRS 16 ³	1.1	33.4	–	34.5
At 1 July 2019	(17.8)	(32.7)	(4.8)	(55.3)
Charge for the year	(1.0)	(6.6)	–	(7.6)
Impairment ²	(5.4)	–	–	(5.4)
Disposals	0.4	19.0	–	19.4
Transfers ²	12.7	(0.3)	–	12.4
At 30 June 2020	(11.1)	(20.6)	(4.8)	(36.5)
Net book value				
At 30 June 2020	24.9	17.4	–	42.3
At 30 June 2019	43.3	14.0	–	57.3

¹ In FY19, the Directors assessed the recoverability of assets within what was the Developments & Housing CGU. An impairment of £10.0m was triggered by the impairment of the Developments & Housing CGU following the decision to dispose of various non-core divisions.

² Includes transfers between asset classes, assets held for sale and investment properties. Total net book value of property transferred to investment properties was £8.3m (2019: £7.2m) which had been impaired by £5.4m as a fair value adjustment. Net book value of intangible assets transferred to plant and equipment was £8.7m (2019: £nil).

³ The net book value of plant and equipment as at 30 June 2019 included an amount of £4.9m in respect of assets held under finance leases. These assets have been reclassified as right-of-use assets on transition to IFRS 16 (see note 35).

⁴ The mining asset represents the stripping activity at the UK Mining operations site. The asset is depreciated over the expected useful life of the coal that becomes more accessible as a result of the stripping activity.

15 Investment properties

(a) Reconciliation of carrying amount

	Owned assets £m	Right-of-use assets £m	Total £m
At 1 July 2019	–	–	–
Transferred from owner-occupied property, plant and equipment	8.3	–	8.3
Transferred from right-of-use assets	–	42.1	42.1
Fair value loss recognised in administrative expenses	–	(0.6)	(0.6)
At 30 June 2020	8.3	41.5	49.8

Investment properties comprise office buildings that were formerly utilised by the Group that have been vacated and are now leased out (or intended to be leased out) to third parties under operating leases. The investment properties include properties that are held as right-of-use assets, as well as properties that are owned by the Group. The investment properties are carried at fair value. Changes in fair values are presented in the profit or loss within administrative expenses.

(b) Amounts recognised in the income statement

	Owned assets £m	Right-of-use assets £m	Total £m
Rental income from operating leases	–	0.4	0.4
Direct operating expenses for property that generated rental income	–	(0.8)	(0.8)
Direct operating expenses for property that did not generate rental income	–	–	–

(c) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable either monthly or quarterly. Lease payments for some contracts include provisions for RPI increases. One contract entitles Kier to an element of variable lease rentals (in addition to the based rent payments) based on a share of the tenant's revenue in carrying out their business of providing serviced offices and hot desking space at the premises. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group intends to enter into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. One of the leases includes a tenant option to renew the lease for a further 10 years. Expectations about the future residual values are reflected in the fair value of the properties.

Minimum lease payments receivable on leases of investment properties are as follows:

	2020 £m	2019 £m
Less than one year	1.3	–
One to two years	1.3	–
Two to three years	1.3	–
Three to four years	1.3	–
Four to five years	1.1	–
Over five years	3.4	–
Total	9.7	–

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For the year ended 30 June 2020

16 Investments in and loans to joint ventures

(a) Movements in year

	2020 £m	2019 ¹ £m
Investment in joint ventures		
At 1 July	246.3	226.1
Additions	14.2	52.0
Loan repayments	(2.1)	(6.1)
Disposals	(12.3)	–
Share of:		
Operating (loss)/profit	(7.5)	13.9
Finance costs	(0.5)	(4.3)
Taxation	1.4	0.5
Post-tax results of joint ventures – continuing operations ²	(6.6)	10.1
Post-tax results of joint ventures – discontinued operations	6.4	20.6
Dividends received	(28.9)	(31.4)
Return of equity	(7.3)	(25.2)
Items recognised directly in other comprehensive income/(losses):		
Fair value movements in cash flow hedging instruments ³	(0.3)	0.2
Deferred tax on fair value movements in cash flow hedging instruments ³	–	–
At 30 June	209.4	246.3
Investments in and loans to joint ventures	105.6	237.9
Transferred to assets held for sale as part of a disposal group	103.8	8.4
At 30 June	209.4	246.3

(b) Analysis of investment in and loans to joint ventures

	2020 £m	2019 ¹ £m
Non-current assets		
Investment properties	54.0	66.7
Other non-current assets	5.0	7.5
Non-current assets	59.0	74.2
Current assets		
Cash and trade receivables	424.4	458.2
Current assets	424.4	458.2
Total assets	483.4	532.4
Current liabilities		
Trade and other payables – current	(43.2)	(61.6)
Borrowings – current	(62.6)	(63.6)
Current liabilities	(105.8)	(125.2)
Non-current liabilities		
Borrowings	(162.3)	(153.3)
Deferred tax liabilities	(0.6)	(1.0)
Other non-current liabilities	(5.3)	(6.6)
Non-current liabilities	(168.2)	(160.9)
Total liabilities	(274.0)	(286.1)
At 30 June	209.4	246.3
Investments in and loans to joint ventures	105.6	237.9
Transferred to assets held for sale as part of a disposal group	103.8	8.4
At 30 June	209.4	246.3

¹ The prior year figures have been restated to separate the post-tax results of joint ventures between continuing and discontinued operations and to include the investments transferred to assets held for sale as part of a disposal group. The equity loans to joint ventures have also been removed and are disclosed in note 32.

² Includes provisions against property development inventory of £10.4m (2019: £nil). These are largely explained in Note 5(d).

³ None of the fair value movements in cash flow hedging instruments or deferred tax on fair value movements in cash flow hedging instruments have been recycled to the income statement in the current or prior year.

(c) Interests in joint ventures

Set out below are the joint ventures of the Group as at 30 June 2020 which, in the opinion of the Directors, are material to the Group. All of the entities are private entities and therefore do not have a quoted fair value. The country of incorporation or registration is also their principal place of business. All are measured under the equity method.

(i) Assets not held for sale

Name of entity	Place of business/ country of incorporation	% of ownership interest/ voting rights 2020	% of ownership interest/ voting rights 2019	Nature of relationship	Carrying amount 2020 £m	Carrying amount 2019 ¹ £m
Kier Trade City ²	England and Wales	90% / 50%	90% / 50%	Property division	18.2	13.1
Solum Regeneration ³	England and Wales	50% / 50%	50% / 50%	Property division	33.2	38.2
Kier Cornwall Street ⁴	England and Wales	90% / 50%	90% / 50%	Property division	13.9	14.3
Kier (Newcastle) ⁵	England and Wales	75% / 50%	75% / 50%	Property division	7.4	7.0
Kier (Southampton) ⁶	England and Wales	75% / 50%	75% / 50%	Property division	8.5	11.1
Watford Health Campus ⁷	England and Wales	50% / 50%	50% / 50%	Property division	10.1	10.2
Kier Richmond ⁸	England and Wales	90% / 50%	90% / 50%	Property division	7.1	10.2
Tri-Link 140 ⁹	England and Wales	50% / 50%	50% / 50%	Property division	–	1.4
Immaterial joint ventures					7.2	14.0
					105.6	119.5

(ii) Assets held for sale

Name of entity	Place of business/ country of incorporation	% of ownership interest/ voting rights 2020	% of ownership interest/ voting rights 2019	Nature of relationship	Carrying amount 2020 £m	Carrying amount 2019 ¹ £m
Kier Cross Keys ¹⁰	England and Wales	90% / 50%	90% / 50%	Residential division	56.2	61.4
Kier Sovereign LLP	England and Wales	50% / 50%	50% / 50%	Residential division	0.2	2.2
Kier Community Living ¹¹	England and Wales	69% / 50%	69% / 50%	Residential division	35.6	37.2
Immaterial joint ventures					11.8	26.0
					103.8	126.8

¹ Prior year figures have been restated to include investments in joint ventures transferred to assets held for sale.

² Kier Trade City consists of Kier Trade City Holdco 1 LLP, Kier Trade City Holdco 2 LLP and Kier Trade City LLP.

³ Solum Regeneration consists of Solum Regeneration Bishops LLP, Solum Regeneration (Epsom) Limited Partnership, Solum Regeneration (Guildford) LLP, Solum Regeneration (Haywards) LLP, Solum Regeneration (Kingswood) LLP, Solum Regeneration (Maidstone) LLP, Solum Regeneration (Redhill) LLP, Solum Regeneration (Surbiton) LLP, Solum Regeneration (Twickenham) LLP, Solum Regeneration (Walthamstow) LLP, Solum Regeneration Epsom (GP Subsidiary) Limited, Solum Regeneration Epsom (GP) Limited, Solum Regeneration Epsom (Residential) LLP, Solum Regeneration Holding 1 LLP and Solum Regeneration Holding 2 LLP.

⁴ Kier Cornwall Street consists of Kier Cornwall Street Holdings 1 LLP, Kier Cornwall Street Holdings 2 LLP and Kier Cornwall Street LLP.

⁵ Kier (Newcastle) consists of Kier (Newcastle) Investment Limited, Kier (Newcastle) Operation Limited and Magnetic Limited.

⁶ Kier (Southampton) consists of Kier (Southampton) Development Limited, Kier (Southampton) Investment Limited and Kier (Southampton) Operations Limited.

⁷ Watford Health Campus consists of Watford Health Campus Limited, Watford Health Campus Partnership LLP, Watford Waterside 1 LLP and Watford Woodlands LLP.

⁸ Kier Richmond consists of Kier Richmond Holdings Limited and Kier Richmond Limited.

⁹ Tri-Link 140 consists of Tri-Link 140 Holdings 1 LLP, Tri-Link 140 Holdings 2 LLP and Tri-Link 140 LLP.

¹⁰ Kier Cross Keys consists of Kier Cross Keys Holdco 1 LLP, Kier Cross Keys Holdco 2 LLP and Kier Cross Keys Dev LLP.

¹¹ Kier Community Living consists of Kier Community Living Holdco 1 LLP, Kier Community Living Holdco 2 LLP, Kier Community Living LLP, Kier Community Living Topco 1 LLP and Kier Community Living Topco 2 LLP.

(d) Borrowing facilities and guarantees to joint ventures

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	2020			2019		
	Borrowing facility £m	Guarantees £m	Drawn at 30 June £m	Borrowing facility £m	Guarantees £m	Drawn at 30 June £m
Kier Hammersmith Limited	–	–	–	24.5	1.0	24.5
Kier Trade City LLP	36.4	5.7	11.9	32.5	6.3	16.6
Tri-Link 140 LLP	–	–	–	5.5	4.7	4.7
50 Bothwell Street LLP	16.5	16.5	16.5	16.5	16.5	16.5
Solum Regeneration (Twickenham) LLP	38.2	9.5	31.1	38.2	9.5	23.6
Watford Woodlands LLP	–	–	–	13.7	1.5	3.3
	91.1	31.7	59.5	130.9	39.5	89.2

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 34.

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16 Investments in and loans to joint ventures continued

(e) Summarised financial information for joint ventures

The tables below provide summarised financial information for those joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	Kier Trade City		Solum Regeneration		Kier Cornwall Street		Kier (Newcastle)	
	2020	2019 ¹	2020	2019	2020	2019	2020	2019
	£m	£m	£m	£m	£m	£m	£m	£m
Summarised balance sheet								
Current assets								
Cash and cash equivalents	2.3	–	2.9	4.5	4.3	3.1	0.7	0.1
Other current assets	30.0	33.1	112.0	112.6	37.3	39.1	3.0	0.5
Current assets	32.3	33.1	114.9	117.1	41.6	42.2	3.7	0.6
Non-current assets	–	–	–	–	–	–	25.2	26.3
Current liabilities								
Financial liabilities (excluding trade payables)	–	–	–	–	–	–	–	–
Other current liabilities	(0.1)	(1.7)	(17.0)	(18.8)	(1.2)	(1.3)	(1.6)	(0.1)
Total current liabilities	(0.1)	(1.7)	(17.0)	(18.8)	(1.2)	(1.3)	(1.6)	(0.1)
Non-current liabilities								
Financial liabilities (excluding trade payables)	(12.0)	(16.6)	(31.6)	(21.8)	(25.0)	(25.0)	(17.0)	(17.0)
Other non-current liabilities	–	(0.2)	–	–	–	–	(0.4)	(0.5)
Total non-current liabilities	(12.0)	(16.8)	(31.6)	(21.8)	(25.0)	(25.0)	(17.4)	(17.5)
Net assets	20.2	14.6	66.3	76.5	15.4	15.9	9.9	9.3
Reconciliation to carrying amounts:								
Net assets at 1 July	14.6	4.8	76.5	60.7	15.9	15.0	9.3	13.0
Capital introduced	5.5	9.3	3.6	16.7	–	–	–	0.6
Profit/(loss) for the year	2.6	0.5	(6.8)	4.8	(0.2)	1.0	0.6	(4.3)
Other comprehensive income/(expense)	–	–	–	–	(0.3)	(0.1)	–	–
Return of equity	–	–	–	(5.7)	–	–	–	–
Dividends paid	(2.5)	–	(7.0)	–	–	–	–	–
Net assets at 30 June	20.2	14.6	66.3	76.5	15.4	15.9	9.9	9.3
Group's share (%)	90%	90%	50%	50%	90%	90%	75%	75%
Group's share	18.2	13.1	33.2	38.2	13.9	14.3	7.4	7.0
Fair value adjustment	–	–	–	–	–	–	–	–
Investment in joint venture	18.2	13.1	33.2	38.2	13.9	14.3	7.4	7.0
Summarised income statement								
Revenue	16.5	–	12.6	33.9	2.1	2.9	2.0	1.5
Finance income	–	–	–	–	–	–	–	–
Depreciation and amortisation	–	–	–	–	–	–	–	–
Finance costs	–	–	–	–	(0.2)	(1.6)	(0.4)	(0.9)
Taxation	–	–	–	–	–	–	0.6	1.0
Profit/(loss) for the year from continuing operations	2.6	0.5	(6.8)	4.8	(0.2)	1.0	0.6	(4.3)
Profit/(loss) for the year from discontinued operations	–	–	–	–	–	–	–	–
Profit/(loss) for the year	2.6	0.5	(6.8)	4.8	(0.2)	1.0	0.6	(4.3)
Other comprehensive income/(expense)	–	–	–	–	(0.3)	(0.1)	–	–
Total comprehensive income/(expense)	2.6	0.5	(6.8)	4.8	(0.5)	0.9	0.6	(4.3)
Dividends received from joint ventures	2.3	–	3.5	–	–	–	–	–

¹ Comparatives for Kier Trade City have been re-presented to reclassify £16.6m of bank loans to non-current liabilities from current liabilities.

	Kier (Southampton)		Watford Health Campus		Kier Richmond		Tri-Link 140	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Current assets								
Cash and cash equivalents	1.8	0.7	1.7	1.7	0.1	0.3	-	-
Other current assets	3.8	0.6	33.8	32.5	18.6	22.8	-	11.2
Current assets	5.6	1.3	35.5	34.2	18.7	23.1	-	11.2
Non-current assets	31.5	36.4	-	-	-	-	-	-
Current liabilities								
Financial liabilities (excluding trade payables)	-	-	-	-	-	-	-	(4.6)
Other current liabilities	(1.1)	(2.3)	(6.4)	(4.8)	-	(1.0)	-	(3.8)
Total current liabilities	(1.1)	(2.3)	(6.4)	(4.8)	-	(1.0)	-	(8.4)
Non-current liabilities								
Financial liabilities (excluding trade payables)	(20.9)	(20.5)	(9.0)	(8.2)	(10.8)	(10.8)	-	-
Other non-current liabilities	(3.7)	-	-	(0.7)	-	-	-	-
Total non-current liabilities	(24.6)	(20.5)	(9.0)	(8.9)	(10.8)	(10.8)	-	-
Net assets	11.4	14.9	20.1	20.5	7.9	11.3	-	2.8
Reconciliation to carrying amounts:								
Net assets at 1 July	14.9	12.5	20.5	4.1	11.3	11.1	2.8	2.6
Capital introduced	-	1.0	5.3	12.8	-	-	-	-
(Loss)/profit for the year	(3.5)	1.4	3.3	3.6	(3.4)	0.3	2.3	0.2
Other comprehensive income/(expense)	-	-	-	-	-	-	-	-
Return of equity	-	-	-	-	-	-	(2.8)	-
Dividends paid	-	-	(9.0)	-	-	(0.1)	(2.3)	-
Net assets at 30 June	11.4	14.9	20.1	20.5	7.9	11.3	-	2.8
Group's share (%)	75%	75%	50%	50%	90%	90%	50%	50%
Group's share	8.5	11.1	10.1	10.2	7.1	10.2	-	1.4
Fair value adjustment	-	-	-	-	-	-	-	-
Investment in joint venture	8.5	11.1	10.1	10.2	7.1	10.2	-	1.4
Summarised income statement								
Revenue	2.6	37.4	21.5	12.0	1.1	1.1	13.8	0.3
Finance income	-	-	-	-	-	-	-	-
Depreciation and amortisation	-	-	-	-	-	-	-	-
Finance costs	-	-	-	-	-	-	-	-
Taxation	0.9	(0.3)	-	-	-	(0.1)	-	-
(Loss)/profit for the year from continuing operations	(3.5)	1.4	3.3	3.6	(3.4)	0.3	2.3	0.2
Profit/(loss) for the year from discontinued operations	-	-	-	-	-	-	-	-
(Loss)/profit for the year	(3.5)	1.4	3.3	3.6	(3.4)	0.3	2.3	0.2
Other comprehensive income/(expense)	-	-	-	-	-	-	-	-
Total comprehensive (expense)/income	(3.5)	1.4	3.3	3.6	(3.4)	0.3	2.3	0.2
Dividends received from joint ventures	-	-	4.5	-	-	0.1	1.1	-

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16 Investments in and loans to joint ventures continued

(f) Individually immaterial joint ventures

In addition to the interests in joint ventures disclosed above, the Group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

(i) Assets not held for sale

	2020 £m	2019 ¹ £m
Aggregate carrying amount of individually immaterial joint ventures	7.2	14.0
Aggregate amounts of the Group's share of:		
(Loss)/profit from continuing operations	(2.9)	6.2
Profit/(loss) from discontinued operations	–	–
Other comprehensive income	–	0.3
Total comprehensive (expense)/income	(2.9)	6.5

(ii) Assets held for sale

	2020 £m	2019 ¹ £m
Aggregate carrying amount of individually immaterial joint ventures	11.8	26.0
Aggregate amounts of the Group's share of:		
Profit/(loss) from continuing operations	–	–
Profit from discontinued operations	–	3.4
Other comprehensive income/(expense)	–	–
Total comprehensive income	–	3.4

¹ Restated to remove those joint ventures which are considered material to the Group in the current year but were not in the prior year and to include joint ventures transferred to assets held for sale.

17 Capitalised mobilisation costs

	2020 £m	2019 £m
At 1 July (2019: recognised on initial application of IFRS 15)	3.3	2.4
Additions	0.8	2.3
Amortisation	(1.5)	(1.4)
Impairment	(0.7)	–
At 30 June	1.9	3.3

18 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 2018	(30.8)	20.7	(6.0)	(1.3)	6.6	(10.8)
Credited/(charged) to income statement	4.9	(1.7)	5.9	(5.9)	40.2	43.4
Acquisitions and disposals	1.3	–	(1.9)	–	–	(0.6)
Reserves	–	–	–	–	12.5	12.5
(Charged)/credited directly to comprehensive income	–	–	(0.7)	3.9	–	3.2
At 30 June 2019	(24.6)	19.0	(2.7)	(3.3)	59.3	47.7
Credited/(charged) to income statement	1.2	12.8	15.4	(10.5)	35.3	54.2
Reserves	–	–	3.4	–	–	3.4
(Charged)/credited directly to comprehensive income	–	–	(0.7)	6.4	–	5.7
At 30 June 2020	(23.4)	31.8	15.4	(7.4)	94.6	111.0

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
Property, plant and equipment	31.8	19.0	–	–	31.8	19.0
Intangible assets	–	–	(23.4)	(24.6)	(23.4)	(24.6)
Retirement benefit obligations	–	–	(7.4)	(3.3)	(7.4)	(3.3)
Other short-term timing differences	15.4	–	–	(2.7)	15.4	(2.7)
Tax losses	94.6	59.3	–	–	94.6	59.3
Total	141.8	78.3	(30.8)	(30.6)	111.0	47.7
Set-off tax	(30.8)	(30.6)	30.8	30.6	–	–
Net tax assets	111.0	47.7	–	–	111.0	47.7

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For the year ended 30 June 2020

19 Contract assets and liabilities

(a) Current contract assets

	2020 £m	2019 £m
At 1 July	466.0	409.6
Revenue adjustments recognised in the period for performance obligations satisfied in previous periods due to changes in the transaction price arising from changes in estimates of variable revenue	(13.3)	(42.3)
Transferred to receivables	(398.5)	(344.3)
Transferred to assets held for sale	(12.8)	–
Balances removed due to business disposals	–	(10.3)
Balance remaining in relation to contract assets at the start of the year	41.4	12.7
Changes due to business combinations	–	9.3
Increase related to services provided in the year	208.3	444.0
At 30 June	249.7	466.0

(b) Non-current contract assets

	2020 £m	2019 £m
At 1 July	25.2	21.1
Increase related to services provided in the year	3.6	4.1
At 30 June	28.8	25.2

(c) Current contract liabilities

	2020 £m	2019 £m
At 1 July	(134.0)	(195.4)
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	87.7	180.2
Contract liabilities repaid	–	0.2
Balances removed due to transfers to liabilities held for sale	2.7	–
Balances removed due to business disposals	–	2.5
Balance remaining in relation to contract liabilities at the start of the year	(43.6)	(12.5)
Increase due to cash received or invoices raised in the year for performance obligations not recognised in revenue	(65.1)	(121.5)
At 30 June	(108.7)	(134.0)

20 Trade and other receivables

	2020 £m	2019 £m
Current:		
Trade receivables	82.4	153.2
Construction contract retentions	80.9	81.5
Amounts receivable from joint ventures	12.9	18.7
Other receivables	25.0	28.0
Prepayments	23.9	74.6
Accrued income	11.0	16.6
Other taxation and social security	0.3	0.3
	236.4	372.9
Non-current:		
Construction contract retentions	32.9	28.9
Other receivables	–	0.1
	32.9	29.0

21 Inventories

	2020 £m	2019 £m
Raw materials and consumables	14.1	18.8
Land and work in progress held for development	45.2	190.0
Other work in progress	0.7	9.1
	60.0	217.9

During the year ended 30 June 2020, £9.4 million of provisions have been recorded against inventory relating to land and work in progress for development (2019: £nil).

22 Cash, cash equivalents, overdraft and borrowings

	2020 £m	2019 £m
Cash and cash equivalents – bank balances and cash in hand	413.9	311.7
Borrowings due within one year	(61.6)	(30.3)
Borrowings due after one year	(689.8)	(473.6)
Impact of cross-currency hedging	27.2	25.0
Net debt	(310.3)	(167.2)

Average month-end net debt was £436m (2019: £422m). Net debt excludes lease liabilities (2019: finance lease obligations).

Cash and cash equivalents are subject to Group-wide cash pooling arrangements. On a gross basis, cash and cash equivalents were £1,897.5m (2019: £1,891.6m) and overdrafts were £1,483.6m (2019: £1,579.9m).

Cash and cash equivalents include £63.4m (2019: £57.3m) being the Group's share of cash and cash equivalents held by joint operations and £43.5m (2019: £43.2m) of bank balances that are not part of the Group-wide cash pooling arrangement.

Information on borrowings is detailed in note 30.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

22 Cash, cash equivalents, overdraft and borrowings continued

(a) Reconciliation of working capital between the consolidated balance sheet and consolidated cash flow statement

	2020				2019			
	Inventories £m	Trade and other receivables £m	Trade and other payables £m	Provisions £m	Inventories £m	Trade and other receivables £m	Trade and other payables £m	Provisions £m
30 June balance sheet	217.9	401.9	(1,350.5)	(90.3)	575.0	652.2	(1,551.0)	(67.5)
IFRS 16/15 adjustments	–	–	–	–	(322.9)	(171.1)	187.1	–
1 July balance sheet	217.9	401.9	(1,350.5)	(90.3)	252.1	481.1	(1,363.9)	(67.5)
30 June balance sheet	60.0	269.2	(1,003.9)	(72.3)	217.9	401.9	(1,350.5)	(90.3)
Movement per balance sheet	(157.9)	(132.7)	346.6	18.0	(34.2)	(79.2)	13.4	(22.8)
Transfers to and from assets held for sale	113.7	22.2	(65.0)	(11.1)	–	(0.1)	(0.3)	–
Disposal of subsidiary	–	–	1.2	–	–	(19.2)	21.5	–
Acquisition of subsidiary	–	–	–	–	(24.6)	(11.0)	3.4	–
Discount unwind ¹	–	–	(0.9)	1.5	–	–	4.0	–
Other	–	2.4	(3.3)	(4.4)	–	(0.7)	0.4	–
Movement per cash flow statement	(44.2)	(108.1)	278.6	4.0	(58.8)	(110.2)	42.4	(22.8)

¹ Discount unwind primarily relates to onerous loss-making contracts and deferred consideration.

(b) Reconciliation of movements in net borrowings

	Cash and cash equivalents £m	Borrowings due within one year £m	Borrowings due after one year £m	Impact of cross- currency hedging £m	Total £m
Net borrowings as at 1 July 2018	330.9	(12.0)	(524.9)	20.3	(185.7)
Cash flows	(20.1)	12.0	25.7	–	17.6
Transfers	–	(30.3)	30.3	–	–
Foreign exchange movements	0.9	–	(4.7)	4.7	0.9
Net borrowings as at 30 June 2019	311.7	(30.3)	(473.6)	25.0	(167.2)
Cash flows	97.8	30.3	(274.7)	–	(146.6)
Transfers	–	(61.6)	61.6	–	–
Foreign exchange movements	4.4	–	(3.1)	2.2	3.5
Net borrowings as at 30 June 2020	413.9	(61.6)	(689.8)	27.2	(310.3)

(c) Free cash flow

The Group generated free cash flow in the year to 30 June 2020 of (£8.3m) (2019: (£88.6m)) representing an increase/(reduction) in net debt of £143.1m (2019: (£19.9m)) before payments in respect of adjusting items of £85.8m (2019: £60.8m), pension deficit payments of £25.0m (2019: £24.2m), acquisitions and disposals of (£14.1m) (2019: (£18.7m)), discontinued operations of £41.5m (2019: £28.2m), other items of (£3.4m) (2019: (£7.3m)) dividends of £nil (2019: £54.2m) and rights issue proceeds of £nil (2019: (£249.9m)).

23 Non-current assets held for sale and discontinued operations

(a) Assets held for sale

In June 2019, the Group announced the results of its strategic review and concluded that the Group needed to simplify its structure, better allocate its capital resources and reduce net debt. It was concluded that Kier Living is not compatible with the Group's working capital objective and accordingly, the Directors decided to dispose of the division. During FY20, a formal sales process commenced, and the assets and liabilities were classified as held for sale. The assets have been impaired to fair value less cost to sell of £110.0m. The sale process was delayed due to COVID-19 but is now progressing well and expected to complete within the next 6-12 months.

In December 2018, the Group began a formal sales process to dispose of its interest in Pure Recycling Warwick Limited ('Pure'). The sales process has been delayed but is expected to complete within the next 12 months. The assets were impaired to fair value less cost to sell of £5.0m.

The Group's investment in its joint venture interest in Kier Hammersmith Limited ('KHL') of £8.4m was classified as held for sale at 30 June 2019. The disposal was completed on 26 September 2019. See note 33 to the consolidated financial statements for further details.

	2020 £m	2019 £m
Assets of disposal group classified as held for sale		
Investments in and loans to joint ventures	52.2	8.4
Inventories	114.7	–
Trade and other receivables	22.2	0.1
Other assets	7.6	6.1
Total	196.7	14.6

Liabilities of disposal group classified as held for sale

Trade and other payables	(59.9)	(1.5)
Other liabilities	(21.8)	–
Total	(81.7)	(1.5)

(b) Results of discontinued operations

Kier Living

Results for Kier Living for the year are classified as discontinued. Prior year results of Kier Living are also restated.

	2020 £m	Restated 2019 £m
Results of discontinued operations		
Revenue	79.9	170.6
Share of post-tax results of joint ventures	7.8	20.6
Operating costs	(93.1)	(152.8)
Operating (loss)/profit	(5.4)	38.4
Finance costs ¹	(7.3)	(2.2)
(Loss)/profit before tax and adjusting items	(12.7)	36.2
Tax	(0.1)	–
(Loss)/profit for the year	(12.8)	36.2
Adjusting items net of tax (note 5) ²	(88.6)	(51.6)
Loss from discontinued operations after tax	(101.4)	(15.4)

¹ Includes interest payable to the continuing Group of £5.6m (2019: £nil).

² Includes £1.4m (2019: £nil) of share of post-tax results of joint ventures.

	2020 £m	2019 £m
Cash flows from discontinued operations		
Operating cash flows	(60.9)	(19.1)
Investing cash flows – adjusting	20.9	1.8
Financing cash flows	(11.0)	(10.5)
Total cash flows	(51.0)	(27.8)

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

24 Leases

(a) Group as a lessee

The Group has lease contracts for various properties, and items of plant, machinery, vehicles and other equipment used in its operations and for administration of the Group's business. Leases of properties have durations of between one and 45 years. Leases of plant and machinery and other equipment generally have lease terms between one and three years, while motor vehicles generally have lease terms between three and six years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

A number of property leases contain extension or termination options. In these circumstances, the Group makes a judgement about the period for which it is reasonably certain to lease the property. More detail on these judgements are discussed in the 'critical accounting estimates and judgements' section of note 1.

The Group's accounting policies for leases are set out in note 1.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The expense included in the income statements relating to the leases was £71.4m.

(b) Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised in respect of the Group's leases and the movements during the year:

	Land and buildings £m	Motor vehicles £m	Plant and equipment £m	Total £m
At 1 July 2019	136.4	27.9	12.0	176.3
Additions	4.9	6.3	9.3	20.5
Depreciation	(13.5)	(14.4)	(7.9)	(35.8)
Reversal of impairment ¹	3.5	–	–	3.5
Impairment ²	(13.7)	–	–	(13.7)
Transferred to investment properties ²	(42.1)	–	–	(42.1)
Disposals	(5.8)	–	(2.0)	(7.8)
At 30 June 2020	69.7	19.8	11.4	100.9

¹ In FY19, the Group provided for an onerous lease contract in respect of a property in Cavendish Place, London, as the property was unoccupied with little prospect of being sublet. On transition to IFRS 16, the onerous lease provision was reclassified as an impairment of the associated right-of-use asset. In FY20 the Directors made the decision to reoccupy Cavendish Place and vacate the Group's office in Foley Street, London. This has resulted in a reversal of the impairment amount relating to Cavendish Place.

² The decision to vacate the Group's Foley Street property has resulted in an impairment of the associated right-of-use asset in the year. As the property is no longer occupied by the Group and is being held for the purpose of earning rentals, the asset has been reclassified as an investment property.

(c) Lease liabilities

	At 30 June 2020 £m
Current	33.1
Non-current	139.8
	172.9

The maturity profile of the contractual cash flows associated with the lease liabilities is presented in note 30.

The interest expense in respect of lease liabilities is included within finance costs in the income statement and is disclosed in note 7.

(d) Amounts recognised in the cash flow statement

	2020 £m
Principal elements of lease payments	40.4
Interest paid	7.2
Total cash outflow for leases ¹	47.6

¹ Excluding cash flows relating to short-term and low value assets for which the recognition exemption has been taken.

(e) Finance leases (2019)

Set out below are details of the finance lease liabilities for the preceding year.

	Future minimum lease payments £m	Interest £m	2019 Present value of minimum lease payments £m
At 1 July 2018	7.9	(0.8)	7.1
New obligations	0.5	–	0.5
Repayments	(5.2)	0.7	(4.5)
At 30 June 2019	3.2	(0.1)	3.1

Finance lease liabilities are payable as follows:

	Future minimum lease payments £m	Interest £m	2019 Present value of minimum lease payments £m
Less than one year	1.2	(0.1)	1.1
Between two and five years	2.0	–	2.0
Over five years	–	–	–
At 30 June 2019	3.2	(0.1)	3.1

25 Trade and other payables

	2020 £m	2019 £m
Current:		
Trade payables ¹	255.8	545.9
Sub-contract retentions	35.0	45.0
Other taxation and social security ²	131.4	74.6
Deferred consideration	–	5.0
Other payables	57.5	98.2
Accruals	477.1	540.0
Deferred income	0.7	2.3
	957.5	1,311.0
Non-current:		
Trade payables	14.2	–
Sub-contract retentions	32.3	39.5
	46.5	39.5

¹ Included within the trade and other payables balance is £125.5m (2019: £170.2m) relating to payments due to suppliers who are on bank-supported supply chain finance arrangements.

² As of 30 June, there was total tax deferred of £79.8m. This comprises £25.1m of VAT deferred in accordance with HMRC guidance and payable 31 March 2021. The balance of £54.7m is subject to a Time To Pay agreement with HMRC with the amount being cleared by the end of the 2021 financial year.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

26 Provisions

	Insurance claims £m	Restoration of mining sites £m	HSE regulatory £m	Onerous contracts £m	Redundancy, site closure & dilapidations £m	Warranty, rectification and other contractual obligations £m	Total £m
At 1 July 2018	20.4	4.3	1.0	17.9	3.9	20.0	67.5
(Credited)/charged to income statement	(0.7)	(0.9)	0.4	19.9	39.5	4.5	62.7
Utilised	–	–	–	(3.0)	(35.2)	(2.8)	(41.0)
Unwinding of discount	–	–	–	1.1	–	–	1.1
At 30 June 2019	19.7	3.4	1.4	35.9	8.2	21.7	90.3
Transition to IFRS 16	–	–	–	(4.4)	–	–	(4.4)
Transferred to asset held for sale	–	–	–	–	–	(9.7)	(9.7)
Transferred to trade payables	–	–	–	(13.9)	–	–	(13.9)
Charged/(credited) to income statement	3.6	0.8	1.8	(4.5)	29.5	34.7	65.9
Utilised	–	(1.8)	–	(11.2)	(31.8)	(12.4)	(57.2)
Unwinding of discount	–	–	–	1.3	–	–	1.3
At 30 June 2020	23.3	2.4	3.2	3.2	5.9	34.3	72.3

Insurance provisions are in respect of legal and other disputes in various Group companies.

Mining provisions of £2.4m (2019: £3.4m) represent the cost of restoration of opencast mining sites.

HSE regulatory provisions are in respect of potential fines arising from changes to safety, health and environmental legislation and regulation.

Onerous contracts provisions are for loss-making contracts that the Group is legally obligated to complete.

Redundancy and dilapidations provisions are in respect of office closure, and site closure provisions relate to adoption costs payable to local authorities on completion of development sites.

Warranty and rectification provisions are for potential claims against work completed by the Group, and other contractual obligations are primarily end of service costs associated with the Group's overseas workforce and potential costs associated with purchases of land held for development.

It is anticipated that the amounts provided will be utilised as follows:

	2020 £m	2019 £m
Due within one year	20.8	25.0
Due after one year	51.5	65.3
	72.3	90.3

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain and as such they are classified as due after one year.

Future outflows in respect of other provisions are expected to occur over the next 10 years.

27 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2020		2019	
	Number	£m	Number	£m
Issued and fully paid ordinary shares of 1 pence each	162,115,870	1.6	162,115,870	1.6

No (2019: nil) shares were issued under the Sharesave Scheme.

No ordinary shares were issued to the Kier Group 1999 Employee Benefit Trust (2019: 200,000) – to be used to satisfy future obligations of the Company under the Kier Group plc 2010 Long Term Incentive Plan. The shares were issued at the nominal value of £0.01.

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.

28 Share-based payments

The Group operates a number of share-based payment schemes for eligible employees as described below.

Sharesave Scheme

Options over the Company's ordinary shares at 30 June 2020 were as follows:

Date of grant	Sharesave Scheme 1 Nov 2017	Sharesave Scheme 1 Nov 2018	Sharesave Scheme 13 Nov 2019	Total
Awards outstanding at 30 June 2020				
– Directors	–	–	–	–
– Employees ¹	124,556	249,079	6,443,088	6,816,723
	124,556	249,079	6,443,088	6,816,723
Exercise price (pence) ¹	966.0	756.7	101.0	

¹ Where the options were granted before the rights issue that completed on 20 December 2018, the number of options and the exercise price have been adjusted to take account of the dilution resulting from the rights issue.

Options to acquire shares in the capital of Kier Group plc have been granted to eligible employees who enter into a Sharesave contract. The number of options granted to each participating employee are the number of shares which have an aggregate option price not exceeding the projected proceeds of the employee's Sharesave contract. Participation in the Kier Sharesave scheme is offered to all employees of the Group who have been employed for a continuous period determined by the Board. Under the Sharesave contract, participating employees save a regular sum each month for three years up to a maximum of £500 per month.

7,199,823 options were granted in the year (2019: 2,205,158) under the Sharesave Scheme, which will all be equity settled.

No Sharesave Scheme options were exercised during the year (2019: none).

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28 Share-based payments continued

Conditional Share Award Plan

Awards over the Company's ordinary shares at 30 June 2020 were as follows:

Date of grant	CSAP award 23 Oct 2017	CSAP award 22 Oct 2018	Total
Awards outstanding at 30 June 2020			
– Directors	–	–	–
– Employees ¹	525,750	634,981	1,160,731
	525,750	634,981	1,160,731
Exercise price (pence)	nil	nil	

¹ Adjusted as a result of the rights issue which completed on 20 December 2018.

In 2018, the Group established a Conditional Share Award Plan (CSAP) under which senior employees receive awards of shares subject only to service conditions, i.e. the requirement for participants to remain in employment with the Group over the vesting period. Participants are entitled to receive dividend equivalents on these awards. Awards under the CSAP are all equity settled.

No new awards were granted in the year (2019: 948,287 awards) under the CSAP and no awards vested in the year (2019: none).

Long Term Incentive Plan

Awards over the Company's ordinary shares at 30 June 2020 were as follows:

Date of grant	LTIP award (Directors) 17 Nov 2017	LTIP award (Directors) 28 Oct 2019	LTIP award (Directors) 28 Oct 2019	LTIP award (Directors) 16 March 2020	Total
Awards outstanding at 30 June 2020					
– Directors ¹	38,312	–	1,745,465	–	1,783,777
– Employees ¹	–	10,170,113	–	515,465	10,685,578
	38,312	10,170,113	1,745,465	515,465	12,469,355
Exercise price (pence)	nil	nil	nil	nil	

¹ The number of options in the 2017 scheme was adjusted as a result of the rights issue which completed on 20 December 2018.

The Group has established a Long-Term Incentive Plan (LTIP) under which Directors and senior employees can receive awards of shares. 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. Participants are entitled to receive dividend equivalents on these awards. Awards under the LTIP are all equity settled. The awards made to Directors are subject to a two-year post vesting holding period and malus and clawback provisions.

No LTIP awards were exercised during the year. In 2019, 269,461 LTIP awards were exercised with a market price of Kier Group plc shares at the date of exercise of 886 pence.

13,741,092 options were granted in the year (2019: 238,558) under the LTIP.

The awards, which are taken as shares, are intended to be satisfied from shares held by the Kier Group 1999 Employee Benefit Trust and May Gurney Group Trustees Ltd Employee Share Ownership Plan Trust or from the issue of new shares. The shares held by the trusts are accounted for as a deduction from equity within retained earnings. The movements in the number and historical cost value of shares held by the trusts are as follows:

	2020		2019	
	Number of shares	Value £m	Number of shares	Value £m
At 1 July	306,317	2.3	251,701	2.5
Acquired during the year	–	–	385,721	1.0
Issued in satisfaction of awards and other schemes	–	–	(269,307)	(1.0)
Issued in satisfaction of deferred bonus schemes	–	–	(61,798)	(0.2)
At 30 June	306,317	2.3	306,317	2.3

The market value of these shares at 30 June 2020 was £0.3m (2019: £0.3m). The dividends on these shares have been waived.

There were no movements in the trust holdings in the year. The shares acquired by the trusts in 2019 at a cost of nil, net of the cash received by the trusts in respect of the deferred bonus schemes of £0.4m is reflected in the statement of changes in equity as a net sale of own shares in 2019 of £0.4m.

Further description of the above share schemes and the terms and conditions of each scheme are included in the Directors' Remuneration Report on pages 101 to 121.

Value of share schemes

The fair value per option granted has been calculated using 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. For awards made to the Directors which are subject to a two-year holding period post vesting, the Finnerly model is used. The following assumptions were used in calculating the fair values:

Sharesave Scheme

Date of grant	1 November 2017	1 November 2018	13 November 2019
Share price at grant (pence)	1,055	924	87
Exercise price (pence) – at grant	983	770	101
Exercise price (pence) – rights adjusted	966	757	n/a
Option life (years)	3.0	3.0	3.0
Expected volatility	24.9%	28.1%	68.5%
Dividend yield	6.4%	7.3%	0.0%
Risk-free interest rate	0.6%	0.8%	0.5%
Value per option (pence) – at grant	113	137	37
Value per option (pence) – rights adjusted	111	135	n/a

Conditional Share Award Plan

Date of grant	23 October 2017	22 October 2018
Share price at grant (pence)	1,063	886
Exercise price (pence)	nil	nil
Option life (years)	3.0	3.0
Value per option (pence) – at grant	1,063	886
Value per option (pence) – rights adjusted	1,045	871

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

28 Share-based payments continued

Long Term Incentive Plan

Date of grant	17 November 2017 (Directors)	28 October 2019	28 October 2019 (Directors)	16 March 2020
Share price at grant (pence)	1,049	116	116	80
Exercise price (pence)	nil	nil	nil	nil
Option life (years)	2.9	3.0	3.0	3.0
Holding period (years)	2.0	n/a	2.0	n/a
Expected volatility	27.5%	74.7%	85.5%	74.7%
Risk-free interest rate	0.5%	0.5%	0.5%	0.5%
Value per option (pence) – at grant				
– TSR element	345	76	66	52
– EPS and Net debt: EBITDA elements	968	116	101	80
Value per option (pence) – rights adjusted				
– TSR element	339.5	n/a	n/a	n/a
– EPS and Net debt: EBITDA elements	951.4	n/a	n/a	n/a

The value per option represents the fair value of the option less any consideration payable.

The fair value of the TSR element incorporates an assessment of the number of shares that will vest, as the performance conditions are market conditions under IFRS 2 'Share-based Payments'.

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 vest. 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 period of time commensurate with the expected award term immediately prior to the date of grant. The risk-free rate of return is the yield on UK Government securities over a term consistent with the expected option life.

An amount of £5.4m relating to share-based payments has been recognised in the income statement as employee costs (2019: £7.2m). Included in other payables is an amount of £0.3m (2019: £0.1m) relating to provisions for employer's national insurance in respect of share-based payments expected to vest in the future.

A reconciliation of option movements is shown below:

	2020		2019	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 July	5,149,398	323.0p	5,734,414	414.1p
Granted	20,940,915	34.7p	3,392,003	500.6p
Lapsed or forfeited	(5,643,504)	253.6p	(3,820,997)	630.0p
Exercised	–	–	(268,307)	0.0p
Adjustment for rights issue ¹	–	–	112,285	–
Outstanding at 30 June	20,446,809	46.9p	5,149,398	323.0p
Exercisable at 30 June	–	–	20,156	1,127.2p

¹ In 2019 the number of options awarded to each scheme participant was adjusted as a result of the rights issue which completed on 20 December 2018.

The options outstanding at 30 June 2020 have a weighted average remaining contractual life of 2.26 years (2019: 1.57 years).

29 Guarantees, contingent liabilities and contingent assets

The Company has given guarantees and entered into counter-indemnities in respect of bonds relating to certain of the Group's own contracts. The Company has also given guarantees in respect of certain contractual obligations of its subsidiaries and joint ventures, which were entered into in the normal course of business, as well as certain of the Group's other obligations (for example, in respect of the Group's finance facilities and its pension schemes). Financial guarantees over the obligations of the Company's subsidiaries and joint ventures are measured at fair value. The fair value measurement is based on the premium received from the joint venture or the differential in the interest rate of the borrowing including and excluding the guarantee. Performance guarantees are treated as a contingent liability until such time as it becomes probable that payment will be required under its terms.

Provisions are made for the Directors' best estimate of known legal claims, investigations and legal actions relating to the Group which are considered more likely than not to result in an outflow of economic benefit. If the Directors consider that a claim, investigation or action relating to the Group is unlikely to succeed, no provision is made. If the Directors cannot make a reliable estimate of a potential, material obligation, no provision is made but details of the claim are disclosed.

At 30 June 2020, the Group had contingent assets of £12.4m (2019: £18.7m) in relation to claims against third-parties for the reimbursement of costs on construction contracts. Under IAS 37 these amounts may only be recognised when the economic benefit arising from the claims is virtually certain. It is probable that these amounts will be recognised in future periods when the uncertainty over their recoverability has been removed.

30 Financial instruments

The following table summarises the Group's financial instruments as at 30 June 2020:

	2020			2019		
	Loans and receivables at amortised cost, cash and cash equivalents £m	Financial liabilities at amortised cost £m	Derivatives £m	Loans and receivables at amortised cost, cash and cash equivalents £m	Financial liabilities at amortised cost £m	Derivatives £m
Financial assets						
Trade and other receivables (less prepayments)	245.4	–	–	327.3	–	–
Cash and cash equivalents	413.9	–	–	311.7	–	–
Loans provided to joint ventures	112.8	–	–	189.7	–	–
Other financial assets	–	–	30.0	–	–	24.1
Total	772.1	–	30.0	828.7	–	24.1
Financial liabilities						
Borrowings	–	(751.4)	–	–	(503.9)	–
Lease liabilities (2019: Finance lease obligations)	–	(172.9)	–	–	(3.1)	–
Trade and other payables ¹	–	(871.9)	–	–	(1,273.6)	–
Other financial liabilities	–	–	–	–	–	–
Total	–	(1,796.2)	–	–	(1,780.6)	–
Net	772.1	(1,796.2)	30.0	828.7	(1,780.6)	24.1

¹ Trade and other payables exclude other taxes and social security, deferred income and payments on account.

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 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 2019. The Group continued to follow its strategic objective for the disposal of the Living division, and this will have the impact in line with its targeting objective of reducing the capital indebtedness of the Group.

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 22 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.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

30 Financial instruments continued

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 and contract assets included in the balance sheet are stated net of expected credit loss (ECL) provisions which have been calculated using a provision matrix grouping trade receivables and contract assets on the basis of their shared credit risk characteristics.

An analysis of the provision held against trade receivables is set out below:

	2020 £m	2019 £m
Provision as at 1 July	1.1	2.0
Credited to the income statement	(0.3)	(0.9)
Utilised in the year	(0.3)	–
Charged to the income statement	3.7	–
Provision as at 30 June	4.2	1.1

There were £29.6m (2019: £53.8m¹) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £14.4m (2019: £24.5m¹) had been received by the end of August 2020. There are no indications as at 30 June 2020 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 unprovided. The proportion of trade receivables at 30 June 2020 that were overdue for payment was 35% (2019: 31%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Infrastructure Services	4 days (2019: 10 days)
Construction	16 days (2019: 13 days)
Other	18 days (2019: 19 days)

Overall, the Group considers that it is not exposed to significant credit risk.

¹ Comparative figure restated to exclude intercompany balances with no 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:

	2020 £m	2019 £m
Fixed rate	249.4	277.3
Variable rate	503.9	229.2
Cost of raising finance	(1.9)	(2.6)
	751.4	503.9

In addition, one of the Group's joint ventures has entered into interest rate swaps in order to mitigate significant interest rate risk.

Interest rate risk also arises on the Group's borrowings where they are not at fixed interest rates. A 50 basis point increase/decrease in the interest rate would lead to a £2.4m increase (2019: £2.2m)/£2.4m decrease (2019: £2.2m) in the Group's net finance cost.

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.

Changes in foreign exchange rates affect the carrying amount of the liability relating to foreign currency denominated debt on the Group's balance sheet. The utilisation of derivatives ensures that the movement is recognised in other comprehensive income rather than profit and loss. A 5% increase/decrease in the US dollar to sterling exchange rate combined with a 5% increase/decrease in the Euro to sterling exchange rate would lead to a £6.1m decrease (2019: £6.0m)/£6.4m increase (2019: £6.3m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

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.

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 GBP-denominated loans, nominal value £65.5m. During 2019 the Group reduced the value on one of the interest rate swaps by £12.0m, reducing the value of these swaps held from £65.5m to the total value of £53.5m. During 2020 the Group reduced the value on one of the interest rate swaps by \$8.0m, reducing the value of these swaps held from \$28.0m to the total value of \$20.0m. The Group has assessed the effectiveness of these swaps and concluded that they are 100% effective. Therefore, no amount in relation to hedge ineffectiveness has been charged or credited to the income statement in relation to any cross currency or interest rate swap.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instruments:

	Fair value £m	Total £m	Expected cash flows			
			0–1 years £m	1–2 years £m	2–5 years £m	More than 5 years £m
Continuing operations						
Cross-currency swaps: asset						
Gross settled inflows	–	148.3	14.5	21.9	111.9	–
Gross settled outflows	–	(116.9)	(12.3)	(17.1)	(87.5)	–
	30.4	31.4	2.2	4.8	24.4	–
Interest rate swaps: liability						
Net settled	(0.4)	(0.1)	(0.1)	–	–	–

In addition to the above, two of the Group's 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 two and four years and are without recourse to the Group. At 30 June 2020, the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £31.5m (2019: £31.5m). The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2020 amounted to £0.5m (2019: £0.3m) which, together with the related deferred tax asset of £nil (2019: £0.1m), have met the criteria for hedge accounting.

Financial assets

Loans and receivables at amortised cost, cash and cash equivalents:	2020 £m	2019 £m
Cash and cash equivalents	413.9	311.7
Trade and other receivables (including £32.9m due after more than one year (2019: £29.0m) – excluding prepayments)	245.4	327.3
Loans to joint ventures	112.8	189.7
	772.1	828.7

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

30 Financial instruments continued

Financial liabilities – analysis of maturity dates

At 30 June 2020, the Group had the following financial liabilities at amortised cost together with the maturity profile of their contractual cash flows:

	Continuing operations			
	Trade and other payables ¹ £m	Borrowings £m	Lease liabilities ² £m	Total £m
30 June 2020				
Carrying value	871.9	751.4	172.9	1,796.2
Contractual cash flows				
Less than one year	839.6	74.9	38.6	953.1
One to two years	32.3	44.9	24.8	102.0
Two to three years	–	555.1	16.4	571.5
Three to four years	–	4.5	13.4	17.9
Four to five years	–	101.4	11.5	112.9
Over five years	–	–	122.9	122.9
	871.9	780.8	227.6	1,880.3
30 June 2019				
Carrying value	1,273.6	503.9	3.1	1,780.6
Contractual cash flows				
Less than one year	1,234.1	26.9	1.1	1,262.1
One to two years	39.5	38.5	0.6	78.6
Two to three years	–	62.8	0.6	63.4
Three to four years	–	32.3	0.6	32.9
Four to five years	–	278.7	0.6	279.3
Over five years	–	88.0	–	88.0
	1,273.6	527.2	3.5	1,804.3

¹ Trade and other payables exclude other taxes and social security, deferred income and payments on account.

² At 30 June 2019: Finance lease obligations.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses cross-currency and interest rate swaps for hedging. These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the bank counterparties using mid-market mark to market valuations for trades at the close of business on 30 June 2020.

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2020:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets/(liabilities)				
Derivatives used for hedging – Cross-currency swaps	–	30.4	–	30.4
Derivatives used for hedging – Interest rate swaps	–	(0.4)	–	(0.4)

There were no transfers between Levels 1 and 2 during the year.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2019:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	24.1	–	24.1
Derivatives used for hedging – Interest rate swaps	–	–	–	–

There were no transfers between Levels 1 and 2 during the year.

Borrowings and borrowing facilities

As at 30 June 2020, the Group had the following unsecured committed facilities after the effect of derivatives:

- › Revolving credit facility of £670.0m, at a margin over LIBOR, due for renewal in July 2022, £503.9m drawn at 30 June 2020 (2019: £229.2m);
- › Four loan notes, principal amounts of £45.0m, US\$20.0m, £47.0m and US\$116.0m, with fixed coupons of between 4.1% and 4.9%, repayable in three repayments, December 2022, November 2021 and November 2024, fully drawn at 30 June 2020, totalling £152.6m at hedged rates (2019: £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 2020 totalling £15.7m at hedged rates (2019: £15.7m); and
- › One loan note, principal amount of £53.5m at a margin over LIBOR with a maturity date of May 2021, fully drawn at 30 June 2020, totalling £53.5m (2019: £53.5m).

In addition, the Group has unsecured overdraft facilities of £20.0m (2019: £20.0m), at a margin over LIBOR, repayable on demand, undrawn at 30 June 2020 and 2019, and a bank loan of £0.2m (2019: £0.5m).

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. As a consequence of the adverse impact of COVID-19, the Group has obtained waivers from these tests as at 30 June 2020. Prior to the outbreak of COVID-19, the Group had complied with the covenant tests.

For future covenant tests up to and including the test at 31 December 2021, the Group has obtained revised reset levels; see Note 1 for further details.

Included within borrowings are capitalised loan fees of £1.9m (2019: £2.6m).

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

31 Financial and capital commitment

	2020 £m	2019 £m
Commitments for capital expenditure	–	0.8
Commitments for equity and subordinate debt in joint ventures	–	0.6
	–	1.4

At 30 June 2019 the total of future minimum lease payments under non-cancellable operating lease rentals were payable as follows:

	2019 (Restated ¹)	
	Property £m	Plant and machinery £m
Within one year	13.8	28.3
Between one and five years	48.6	31.1
Over five years	130.2	5.3
	192.6	64.7

¹ A detailed review of leases was undertaken as part of the adoption of IFRS 16 and, as a result, the future minimum lease payments under operating leases for properties has been restated from £167.5m to £192.6m, and plant and machinery has been restated from £52.1m to £64.7m to reflect leases not previously identified and future fixed rental increases that were excluded from the 2019 Annual Report.

Operating leases commitments as at 30 June 2020 are included on the balance sheet as lease liabilities, as required by IFRS 16.

32 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 101 to 121.

In addition to their salaries, the Group also provides non-cash benefits to Directors and contributes to their pension arrangements as disclosed on page 113. Key management personnel also participate in the Group's share option programme (see note 28).

Key management personnel compensation comprises:

	2020 £m	2019 £m
Emoluments as analysed in the Directors' Remuneration Report	2.2	5.2
Employer's national insurance contributions	0.3	0.6
Total short-term employment benefits	2.5	5.8
Share-based payment charge	1.8	0.7
	4.3	6.5

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 9.

Transactions with joint ventures

	2020 £m	2019 £m
Construction services and materials	237.1	278.2
Staff and associated costs	10.2	10.0
Management services	13.4	16.0
Interest on loans to joint ventures	0.8	0.6
Plant hire	1.4	1.3
	262.9	306.1

Equity loans due from joint ventures are analysed below:

	2020 £m	2019 ¹ £m
Kier Cross Keys Holdco 1 LLP	35.0	35.0
Kier Community Living Topco 1 LLP	32.1	32.1
Kier Trade City Holdco 1 LLP	17.6	12.7
Solum Regeneration (Twickenham) LLP	14.5	14.2
Kier (Newcastle) Investment Ltd	10.1	10.1
Kier (Southampton) Investment Limited	10.0	10.0
Kier Richmond Holdings Limited	9.9	9.9
Watford Health Campus Partnership LLP	9.7	7.0
Solum Regeneration (Bishops) LLP	7.2	5.0
Kier Cornwall Street Holdings 1 LLP	6.5	6.5
Kier Cornwall Street Holdings 2 LLP	6.5	6.5
Solum Regeneration (Guildford) LLP	6.2	3.4
50 Bothwell Street Holdco 1 LLP	5.6	5.2
Easingwold Holdco 1 LLP	4.7	2.9
Stokesley Holdco 1 LLP	4.2	2.7
Driffield Holdco 1 LLP	2.5	2.5
Winsford Holdings 1 LLP	2.4	1.2
Solum Regeneration (Kingswood) LLP	2.2	0.1
Solum Regeneration (Epsom) LP	1.4	5.3
Solum Regeneration (Redhill) LLP	1.4	1.2
Solum Regeneration (Maidstone) LLP	0.7	0.6
Solum Regeneration (Surbiton) LLP	0.3	0.1
Solum Regeneration Holding 1 LLP	0.2	0.2
Solum Regeneration Holding 2 LLP	0.2	0.2
Solum Regeneration (Walthamstow) LLP	0.1	2.0
Solum Regeneration (Haywards) LLP	0.1	0.4
KCK Peterborough Holdco 1 LLP	–	4.8
Strawberry Percy Holdings 1 LLP	–	1.6
Strawberry Percy Holdings 2 LLP	–	1.6
Tri-link 140 Holdings 1 LLP	–	1.4
Notaro Kier LLP	–	1.3
Black Rock Holdco 1 LLP	–	1.2
Kier Sovereign LLP	–	0.8
	191.3	189.7

¹ The comparative figure for Kier Cross Keys Holdco 1 LLP has been restated by £3.9m from £38.9m to £35.0m to reflect the equity loan provided to the joint venture by Kier only.

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

32 Related parties continued

Trading balances due from joint ventures are analysed below:

	2020 £m	2019 £m
Kier Community Living LLP	12.7	4.2
Kier Cross Keys Dev LLP	0.8	6.0
Stokesley Devco LLP	0.6	3.3
Hackney Schools for the Future 2 Limited	0.6	–
Easingwold Devco LLP	0.4	0.5
Kier (Southampton) Investment Limited	0.3	–
Driffield Devco LLP	0.2	0.4
Black Rock Devco LLP	0.1	–
Dragon Lane LLP	0.1	–
Kier Trade City LLP	0.1	–
TriLink 140 LLP	–	3.8
Hackney Schools for the Future Limited	–	1.4
Winsford Devco LLP	–	0.8
Kier Richmond Limited	–	0.3
Team Van Oord Limited	–	0.1
KCK Peterborough Devco LLP	–	0.1
	15.9	20.9

33 Acquisitions and disposals

The Group has completed a number of disposals during the year, in chronological order:

a) Kier Hammersmith Holdco Limited

On 26 September 2019 the Group, through its subsidiary Kier Property Development Limited, disposed of its interest in Kier Hammersmith Holdco Limited for a total consideration of £9.1m. The business was classified as held for sale as at 30 June 2019.

	2020 £m
Sale proceeds	9.1
Book value of net assets	(8.4)
Sale costs	(0.5)
Profit on disposal	0.2

b) Strawberry Percy LLP

On 11 November 2019 the Group, through its subsidiary Kier Property Development Limited, disposed of its interest in Strawberry Percy LLP for a total consideration of £3.6m.

	2020 £m
Sale proceeds	3.6
Book value of net assets	(3.6)
Profit on disposal	–

c) South West Hub

On 23 December 2019 the Group, through its subsidiary Kier Project Investment Limited, disposed of its interest in Hub SW QMA Hold Co Limited for a total consideration of £1.4m.

	2020 £m
Sale proceeds	1.4
Book value of net assets	(1.0)
Profit on disposal	0.4

34 Subsidiaries and other undertakings

A full list of subsidiaries, branches, associated undertakings, and joint arrangements as at 30 June 2020 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%
A C Chesters & Son Limited	1	Ordinary	100%
AK Student Living Limited	1	A Ordinary	100%
		B Ordinary	100%
Allison Homes Eastern Limited	1	Ordinary	100%
Arena Central Developments LLP	1	–	100%
Arena Central Management Limited	1	A Ordinary	100%
			25% ³
Balaam Wood Management Company Limited	2	Ordinary	100%
Bellwinch Homes (Western) Limited	1	Ordinary	100%
Bellwinch Homes Limited	1	Ordinary	100%
Bellwinch Limited	1	Ordinary	100%
Caribbean Construction Company Limited	3	Ordinary	100%
Caxton Integrated Services Holdings Limited	1	Ordinary	100%
ClearBOX Limited	1	Ordinary	75%
Connect 21 Community Limited	4	Ordinary	100%
Dudley Coles Limited	1	Ordinary	100%
Elsea Park Bourne Management Company Limited	5	Ordinary	100%
Engage Lambeth Limited ¹²	6	C Ordinary	100%
			52% ³
Engineered Products Limited (in liquidation)	6	Ordinary	100%
FDT (Holdings) Ltd	1	Ordinary	100%
FDT Associates Ltd	1	Ordinary A	100%
Gravesend Coldharbour Road Management Company Limited	1	Ordinary A	100%
		Ordinary B	100%
Heart of Wales Property Services Limited	7	Ordinary	50%
Heatherwood (Thetford) Management Company Limited	5	Ordinary	100%
Hugh Bourn Developments (Wragby) Limited (in liquidation)	8	Ordinary	100%
J L Kier & Company (London) Limited	1	Ordinary	100%
J L Kier & Company Limited	1	Ordinary	100%
Javelin Construction Company Limited ¹²	6	Ordinary	100%
Kier (Catterick) Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier (Kent) PSP Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier (Malaysia) SDN. BHD.	9	Ordinary	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 ¹⁰	6	Ordinary	100%
Kier Business Services Limited	1	Ordinary	100%
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	1	Ordinary	100%
Kier Construction Limited	10	Ordinary	100%
Kier Construction LLC ⁹	11	Ordinary	49%
Kier Construction SA	12	Ordinary	100%
Kier Developments Limited	1	A Ordinary	100%
		B Ordinary	100%
		C Ordinary	100%
Kier Dormant Holdings Limited	1	Ordinary	100%
Kier Dubai LLC ⁹	13	Ordinary	49%
Kier Education Investments Limited	1	B Ordinary	100%
		M Ordinary	100%
Kier Education Services Limited	1	B Ordinary	100%
		M Ordinary	100%
Kier Energy Solutions Limited	1	Ordinary	100%
		A Ordinary	100%

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

34 Subsidiaries and other undertakings continued

Company name	Registered office ¹	Share class(es) held	% held by Group
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 Group Trustees Limited ²	1	Ordinary	100%
Kier Harlow Limited	1	A Ordinary B Ordinary	100% 100%
Kier Highways Limited	1	A Ordinary B Ordinary	100% 100%
Kier Holdco 2 Limited	1	Ordinary	100%
Kier Holdings Limited	1	Ordinary Irredeemable preference	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 and Overseas Limited – Hong Kong Branch			
Kier Infrastructure and Overseas Limited – Jamaica Branch			
Kier Infrastructure and Overseas Limited – Trinidad Branch			
Kier Infrastructure Pty Ltd	14	Ordinary	100%
Kier Insurance Limited	15	Ordinary	100%
Kier Insurance Management Services Limited	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	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 – India Branch			
Kier International Limited – Jamaica Branch			
Kier International Limited	16	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 Developments Limited	1	Ordinary	100%
Kier Living Limited ²	1	Ordinary	100%
Kier Management Consulting Limited	1	Ordinary A Ordinary B Ordinary	100% 100% 100%
Kier MBS Limited	1	Ordinary	100%
Kier Midlands Limited	1	Ordinary	100%
Kier Minerals Limited	1	Ordinary	100%
Kier Mining Investments Limited	1	Ordinary	100%
Kier National Limited	1	Ordinary	100%
Kier North Tyneside Limited ⁵	1	B Ordinary	100% 80% ³
Kier Overseas (Four) Limited	1	Ordinary	100%
Kier Overseas (Nine) Limited	1	Ordinary	100%
Kier Overseas (Seventeen) Limited	1	Ordinary	100%
Kier Overseas (Twenty-Three) Limited	1	Ordinary	100%
Kier Parkman Ewan Associates Limited	1	Ordinary A	100%
Kier Parkman GB Limited	1	Ordinary	100%
Kier Parkman ServiGroup Limited	1	Ordinary	100%
Kier Partnership Homes Limited	1	Ordinary	100%

Subsidiaries continued

Company name	Registered office ¹	Share class(es) held	% held by Group
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 ¹⁰	6	Ordinary	100%
Kier Recycling CIC	1	Ordinary	100%
Kier Services Limited	1	Ordinary	100%
Kier Sheffield LLP	1	–	80.1%
Kier South East Limited	1	Ordinary	100%
Kier Southern Limited	1	Ordinary	100%
Kier Stoke Limited	1	A Ordinary B Ordinary	100% 100%
Kier Sydenham Limited	1	Ordinary	100%
Kier Thurrock Limited	1	Ordinary	100%
Kier Traffic Support Limited	1	Ordinary	100%
Kier UKSC LLP	1	–	100%
Kier Ventures Limited	1	Ordinary	100%
Kier Ventures UKSC Limited	1	Ordinary	100%
Kier York Street LLP	1	–	100%
Lambeth Learning Partnership (PSP) Limited ¹²	6	Ordinary	65%
Leyden Transport Limited ¹⁰	6	Ordinary	100%
Liferange Limited	1	Ordinary	100%
McNicholas Construction (Holdings) Limited	1	Ordinary	100%
McNicholas Construction Services Limited	1	Ordinary	100%
Moss Construction Northern Limited (in liquidation)	6	Ordinary	100%
MPHBS Limited	1	Ordinary	100%
MRBL Limited	1	Ordinary A Ordinary B Deferred B	100% 100% 100%
Parkman Consultants Limited	1	Ordinary	100%
Parkman Consultants Limited – Abu Dhabi Branch			
Parkman Holdings Limited	1	Ordinary	100%
Parkman Kenya Limited	18	Ordinary	100%
Parkman Nigeria Limited	19	Ordinary	100%
Pure Buildings Limited	1	Ordinary	100%
Pure Recycling Warwick Limited	1	Ordinary A Ordinary B	100% 100%
Robert Marriott Group Limited ¹⁰	6	Ordinary	100%
Saudi Kier Construction Limited	20	Ordinary	100%
T Cartledge Limited	1	Ordinary	100%
T H Construction Limited	1	Ordinary	100%
T J Brent Limited	1	Ordinary Ordinary B Ordinary C	100% 100% 100%
Tempsford Cedars Limited	1	Ordinary	100%
Tempsford Insurance Company Limited ²	15	Ordinary	100%
The Impact Partnership (Rochdale Borough) Limited	1	Ordinary	80.1%
Tor2 Limited	1	PSP Shares	100% 80.01% ³
TradeDirect Logistics Limited	1	Ordinary	100%
Turniff Contractors Limited	21	Ordinary	100%
Turniff Group Limited	21	Ordinary Ordinary A Ordinary B	100% 100% 100%

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Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

34 Subsidiaries and other undertakings continued

Company name	Registered office ¹	Share class(es) held	% held by Group
Twigden Homes Limited	1	Ordinary	100%
Twigden Homes Southern Limited	1	Ordinary	100%
Underground Moling Services Limited ¹¹	17	Ordinary	100%
Usherlink Limited	1	Ordinary	100%
W. & C. French (Construction) Limited	1	Ordinary	100%
Wallis Limited	1	Ordinary	100%
Wallis Western Limited	1	Ordinary	100%
William Moss Group Limited (The)	1	Ordinary	100%

¹ See list of registered office details and explanatory notes on page 211.

Joint ventures

Company name	Registered office ¹	Interest held		Registered office ¹	Interest held
Property					
3 Sovereign Square Holdings 1 LLP	1	50%	Kier Sovereign LLP	1	50%
3 Sovereign Square Holdings 2 LLP	1	50%	Kier Sydenham GP Holdco Limited	1	50%
3 Sovereign Square LLP	1	50%	Kier Sydenham GP Limited	1	50%
50 Bothwell Street Holdco 1 LLP	22	50%	Kier Sydenham LP	1	50%
50 Bothwell Street Holdco 2 LLP	22	50%	Kier Sydenham Nominee Limited	1	50%
50 Bothwell Street LLP	22	50%	Kier Trade City Holdco 1 LLP	1	90%
Black Rock Devco LLP	1	50%	Kier Trade City Holdco 2 LLP	1	90%
Black Rock Holdco 1 LLP	1	50%	Kier Trade City LLP	1	90%
Black Rock Holdco 2 LLP	1	50%	Kier Warth Limited	1	50%
Dragon Lane Holdings 1 LLP	1	50%	Kingswood Devco Holdings 1 LLP	1	50%
Dragon Lane Holdings 2 LLP	1	50%	Kingswood Devco Holdings 2 LLP	1	50%
Dragon Lane LLP	1	50%	Kingswood Devco LLP	1	50%
Driffeld Devco LLP	1	50%	Lysander Student Properties Investments	1	75%
Driffeld Holdco 1 LLP	1	50%	Lysander Student Properties Limited	1	75%
Driffeld Holdco 2 LLP	1	50%	Lysander Student Properties Operations Limited	1	75%
Easingwold Devco LLP	1	50%	Magnetic Limited	1	75%
Easingwold Holdco 1 LLP	1	50%	Notaro Kier LLP	1	50%
Easingwold Holdco 2 LLP	1	50%	Penda Limited	1	50%
Farington Moss Devco LLP (in liquidation)	1	10%	Premier Inn Kier Limited	1	50%
Farington Moss Holdco 1 LLP (in liquidation)	1	10%	Solum Regeneration (Bishops) LLP	1	50%
Farington Moss Holdco 2 LLP (in liquidation)	1	10%	Solum Regeneration (Epsom) Limited Partnership	1	50%
KCK Peterborough Devco LLP	1	90%	Solum Regeneration (Guildford) LLP	1	50%
KCK Peterborough Holdco 1 LLP	1	90%	Solum Regeneration (Haywards) LLP	1	50%
KCK Peterborough Holdco 2 LLP	1	90%	Solum Regeneration (Kingswood) LLP	1	50%
Kent LEP 1 Limited	1	80%	Solum Regeneration (Maidstone) LLP	1	50%
Kier (Newcastle) Investment Ltd	1	75%	Solum Regeneration (Redhill) LLP	1	50%
Kier (Newcastle) Operation Limited	1	75%	Solum Regeneration (Surbiton) LLP	1	50%
Kier (Southampton) Development Limited	1	75%	Solum Regeneration (Twickenham) LLP	1	50%
Kier (Southampton) Investment Limited	1	75%	Solum Regeneration (Walthamstow) LLP	1	50%
Kier (Southampton) Operations Limited	1	75%	Solum Regeneration Epsom (GP Subsidiary)	1	50%
Kier Community Living Holdco 1 LLP	1	69%	Solum Regeneration Epsom (GP) Limited	1	50%
Kier Community Living Holdco 2 LLP	1	69%	Solum Regeneration Epsom (Residential) LLP	1	50%
Kier Community Living LLP	1	69%	Solum Regeneration Holding 1 LLP	1	50%
Kier Community Living Topco 1 LLP	1	69%	Solum Regeneration Holding 2 LLP	1	50%
Kier Community Living Topco 2 LLP	1	69%	Stokesley Devco LLP	1	50%
Kier Cornwall Street Holdings 1 LLP	1	90%	Stokesley Holdco 1 LLP	1	50%
Kier Cornwall Street Holdings 2 LLP	1	90%	Stokesley Holdco 2 LLP	1	50%
Kier Cornwall Street LLP	1	90%	Transcend Property Limited	24	50%
Kier Cross Keys Dev LLP	1	90%	Tri-Link 140 Holdings 1 LLP	1	50%
Kier Cross Keys Holdco 1 LLP	1	90%	Tri-Link 140 Holdings 2 LLP	1	50%
Kier Cross Keys Holdco 2 LLP	1	90%	Tri-Link 140 LLP	1	50%
Kier Foley Street Holdco 1 LLP	1	90%	Watford Health Campus Limited	1	50%
Kier Foley Street Holdco 2 LLP	1	90%	Watford Health Campus Partnership LLP	1	50%
Kier Foley Street LLP	1	90%	Watford Riverwell (Family Housing) LLP	1	50%
Kier Reading Holdco 1 LLP	1	90%	Watford Riverwell Management Company Limited	1	50%
Kier Reading Holdco 2 LLP	1	90%	Watford Woodlands LLP	1	50%
Kier Reading LLP	1	90%	Winsford Devco LLP	1	50%
Kier Richmond Holdings Limited	1	90%	Winsford Holdings 1 LLP	1	50%
Kier Richmond Limited	1	90%	Winsford Holdings 2 LLP	1	50%
Construction			Services		
Kier Graham Defence Limited	1	50%	2020 Knowsley Limited	1	80.1%
			Hackney Schools for the Future Limited	1	80%
			Team Van Oord Limited	23	25%

¹ See list of registered office details and explanatory notes on page 211.

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

34 Subsidiaries and other undertakings continued

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 EC1M 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 Lyneham, 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, Interserve Project Services Limited and Mouchel Limited	81 Fountain Street, Manchester, M2 2EE
KMI Water	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited	81 Fountain Street, Manchester, M2 2EE
Mersey Gateway	a joint arrangement between Kier Infrastructure and Overseas Limited, Samsung C&T ECUK Limited and FCC Construcción S.A.	Forward Point, Tan House Lane, Widnes, W48 0SL
Luton People Mover	a joint arrangement between Kier Infrastructure and Overseas Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
HS2	a joint arrangement between Kier Infrastructure and Overseas Limited and Eiffage Génie Civil	19 Cornwall Street, Birmingham, B3 2DT
RAF Lakenheath	a joint arrangement between Kier Construction Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
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:	
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 Construction LLC and Ali and Sons Contracting Co LLC	Saadiyat Island, Abu Dhabi
Kier ACC	a joint arrangement between Kier Dubai LLC and Arabian Construction Co.SAL	AL Qudra Road, Dubai

Registered office addresses

Number	Address
1	81 Fountain Street, Manchester, M2 2EE, UK
2	154-155, Great Charles Street, Queensway, Birmingham, B3 3LP, UK
3	Harbour Head, Harbour View, Kingston 17, Jamaica
4	The Maltings, Sandon, Buntingford, SG9 0RU, UK
5	86a, The Maltings, Roydon Road, Stanstead Abbots, Hertfordshire, SG12 8UU, UK
6	1 More London Place, London, SE1 2AF, UK
7	Unit 31, Ddole Road Industrial Estate, Llandrindod Wells, Powys, LD1 6DF, UK
8	KPMG LLP, 15 Canada Square, Canary Wharf, London, E14 5GL, UK
9	9-5 & 7-5, Jalan 8/146, Bandar Tasik Selatan, Kuala Lumpur, 57000, Malaysia
10	Grant Thornton, C/O Cnr Bank Street and West Independence Sq Street, Basseterre, Saint Kitts and Nevis
11	Unit 869, PO Box 61967 Level 08, Al Gaith Tower, Hamdan Street, Abu Dhabi, United Arab Emirates
12	151 Angle Avenue, Jean Paul II et Impasse Duverger, Turgeau, Port-au-Prince, Haiti
13	Unit 1501, P.O. Box 2, Thuraya Tower, Plot No C-008-001, TECOM, Dubai, United Arab Emirates
14	Suite 1, Level 30, 360 Collins Street, Melbourne, VIC 3000, Australia
15	PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey
16	6th Floor, Emperor Commercial Centre, 39 Des Voeux Road Central, Hong Kong
17	Atria One, 144 Morrison Street, Edinburgh, EH3 8EB, UK
18	5th Floor, Agip House, P.O. Box 41425, Nairobi, Kenya
19	9, N/Azikiwe St., Lagos, Nigeria
20	PO Box 667, 4th Floor, ATCO Building, King Khaled Road, Dammam-31421, KSA, United Arab Emirates
21	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, G33 6HZ, UK
22	18 Savile Row, London, W1S 3PW, UK
23	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ, UK
24	1 Kingsway, London, WC2B 6AN, 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 Group has entered into a partnership arrangement with North Tyneside Council whereby the Council has a participating ownership interest and receives a minority share of the profits of Kier North Tyneside Limited.
- ⁶ 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.
- ⁷ Interests in the above joint ventures are held by subsidiary undertakings.
- ⁸ The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group has joint control.
- ⁹ Accounted for as a subsidiary as control is achieved through an agreement between shareholders.
- ¹⁰ Members voluntary liquidation completed on 19 August 2020.
- ¹¹ Members voluntary liquidation completed on 11 August 2020.
- ¹² Members voluntary liquidation completed on 18 August 2020.
- ¹³ Where companies are shown as being in liquidation, in all cases this is a members voluntary liquidation.

Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended 30 June 2020

35 Changes in accounting policies

IFRS 16 'Leases'

The Group has adopted IFRS 16 'Leases' with effect from 1 July 2019 using the modified retrospective (cumulative catch-up) method, and as such comparative information has not been restated. The reclassifications and the adjustments arising from the new lease accounting rules are therefore recognised in the opening balance sheet on 1 July 2019.

Measurement of lease liabilities and right-of-use assets

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.86%.

The right-of-use assets associated with the vehicle, plant and the larger property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This did not result in any measurement adjustments immediately after the date of initial application.

Practical expedients applied

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review.
The Group has adjusted the carrying amount of the right-of-use asset at the date of initial application by the previous carrying amount of its onerous lease provisions at 30 June 2019 up to a maximum of the associated right-of-use asset value;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Hindsight has been used in determining the lease term where the contract contains options to extend or terminate the lease.

As a further practical expedient, the standard permits accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases. This practical expedient can be applied on a lease by lease basis. The Group has chosen to apply this practical expedient to its sundry plant and equipment leases but not its property or vehicle fleet lease portfolios (which form the bulk of its leases). The Group believes this approach will help comparability in the financial periods immediately following adoption of IFRS 16.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease'.

Lease liabilities reconciliation

	Property £m	Plant and machinery £m	Total £m
Future minimum lease payments under operating leases at 30 June 2019 ¹	167.5	52.1	219.6
Restatement ²	25.1	12.6	37.7
Future minimum lease payments under operating leases at 30 June 2019 (restated)	192.6	64.7	257.3
Impact of discounting ³	(47.1)	(3.9)	(51.0)
Non-lease components not recognised in the lease liability	–	(6.1)	(6.1)
Short-term leases	–	(1.0)	(1.0)
Low-value items	–	(1.5)	(1.5)
Adjustments as a result of a different treatment of extension and termination options	(4.0)	–	(4.0)
Additional lease liability at 1 July 2019	141.5	52.2	193.7
Finance lease liability at 30 June 2019 ⁴	–	3.1	3.1
Total lease liability at 1 July 2019	141.5	55.3	196.8

¹ As disclosed in note 29 to the Group's Annual Report and Accounts for the year ended 30 June 2019. Amounts relate to non-cancellable leases and are undiscounted.

² A detailed review of leases was undertaken as part of the adoption of IFRS 16 and as a result, the future minimum lease payments under operating leases has been restated to reflect leases not previously identified and future rental increases that were excluded from the 2019 Annual Report.

³ Using the incremental borrowing rate at the date of initial application (1 July 2019).

⁴ As disclosed in note 22 to the Group's Annual Report and Accounts for the year ended 30 June 2019.

Adjustments recognised in the balance sheet on 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

- Property, plant and equipment – decrease by £4.9m;
- Right-of-use assets – increase by £176.3m;
- Deferred tax assets – increase by £3.4m;
- Prepayments – decrease by £2.3m;
- Provisions – decrease by £4.4m;
- Lease liabilities – increase by £193.7m; and
- Accruals – decrease by £0.2m.

The net impact on accumulated losses on 1 July 2019 was an increase of £16.6m.

Impact of IFRS 16 on the income statement for the year ended 30 June 2020

	Amounts without adoption of IFRS 16			Impact of adopting IFRS 16			As reported		
	Before adjusting items £m	Adjusting items (note 5) £m	Total £m	Before adjusting items £m	Adjusting items (note 5) £m	Total £m	Before adjusting items £m	Adjusting items (note 5) £m	Total £m
Continuing operations									
Profit/(loss) from operations	32.1	(238.1)	(206.0)	9.3	1.1	10.4	41.4	(237.0)	(195.6)
Net finance costs	(17.4)	(5.2)	(22.6)	(7.1)	–	(7.1)	(24.5)	(5.2)	(29.7)
Profit/(loss) before taxation	14.7	(243.3)	(228.6)	2.2	1.1	3.3	16.9	(242.2)	(225.3)

Depreciation and interest charges under IFRS 16 were £2.2m less than the operating lease expenses that would have been charged under the previous leases accounting standard. Due to the differing methods of calculation, the impairment of the right-of-use assets under IFRS 16 were £1.1m less than the onerous lease provision that would have been calculated under the previous accounting standards.

Lessor accounting

The Group did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

Financial Statements

Company balance sheet


As at 30 June 2020

	Notes	2020 £m	2019 ¹ £m
Non-current assets			
Investments	5	532.2	486.2
Amounts due from subsidiary undertakings		1,382.7	1,261.5
Other financial assets	8	30.0	22.1
Non-current assets		1,944.9	1,769.8
Current assets			
Debtors	6	2.0	2.6
Other financial assets	8	–	2.0
Cash and cash equivalents		–	165.2
Current assets		2.0	169.8
Total assets		1,946.9	1,939.6
Current liabilities			
Cash overdraft		(123.1)	–
Creditors – amounts falling due within one year	7	(72.1)	(41.6)
Current liabilities		(195.2)	(41.6)
Non-current liabilities			
Creditors – amounts falling due after more than one year	7	(689.8)	(473.4)
Amounts due to subsidiary undertakings		(117.1)	(389.5)
Non-current liabilities		(806.9)	(862.9)
Total liabilities		(1,002.1)	(904.5)
Net assets		944.8	1,035.1
Shareholders' funds			
Called up share capital	9	1.6	1.6
Share premium account		684.3	684.3
Merger reserve		134.8	134.8
Capital redemption reserve		2.7	2.7
Profit and loss account		119.2	212.4
Cash flow hedge reserve		2.2	(0.7)
Total shareholders' funds		944.8	1,035.1

The loss for the year was £98.6m (2019: £74.6m profit).

The financial statements of Kier Group plc, company registration number 2708030, on pages 214 to 219 were approved by the Board of Directors on 25 September 2020 and were signed on its behalf by:

¹ Prior year comparative information has been re-presented to gross up amounts due to and from subsidiary undertakings.


ANDREW DAVIES
Chief Executive


SIMON KESTERTON
Finance Director

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Financial Statements

Company statement of changes in equity

For the year ended 30 June 2020

	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 2018	1.0	435.0	134.8	2.7	183.7	(4.3)	752.9
Profit for the year	–	–	–	–	74.6	–	74.6
Other comprehensive income	–	–	–	–	–	3.6	3.6
Dividends paid	–	–	–	–	(52.6)	–	(52.6)
Issue of own shares	0.6	249.3	–	–	–	–	249.9
Share-based payments	–	–	–	–	7.2	–	7.2
Purchase of own shares	–	–	–	–	(0.5)	–	(0.5)
At 30 June 2019	1.6	684.3	134.8	2.7	212.4	(0.7)	1,035.1
Loss for the year	–	–	–	–	(98.6)	–	(98.6)
Other comprehensive income	–	–	–	–	–	2.9	2.9
Share-based payments	–	–	–	–	5.4	–	5.4
At 30 June 2020	1.6	684.3	134.8	2.7	119.2	2.2	944.8

Included in the profit and loss account is a credit balance on the share scheme reserve of £10.3m (2019: £6.7m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment scheme are included in note 28 to the consolidated financial statements.

Financial Statements

Notes to the Company financial statements

For the year ended 30 June 2020

1 Accounting policies

The principal accounting policies are summarised below. Other than where new accounting policies have been adopted (as noted 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' (FRS 101) 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 221.

The Company's financial statements are included in the Kier Group plc consolidated financial statements for the year ended 30 June 2020. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

None of the standards, interpretations or amendments effective for the first time from 1 July 2019 (including IFRS 16) have a material effect on the Company's financial statements.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101:

- The requirement of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share Based Payment'
- The requirements of IFRS 7 'Financial Instruments: Disclosures'
- The requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement'
- The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1
- The requirement of paragraphs 10(d), 10a(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D and 111 of IAS 1 'Presentation of Financial Statements'
- The requirements of paragraphs 134 to 136 of IAS 1 'Presentation of Financial Statements'
- The requirements of IAS 7 'Statement of Cash Flows'
- The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- The requirement of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures'
- The requirements in IAS 24 'Related party disclosures' to disclose related party transactions 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 IAS 36 'Impairment of Assets'

These financial statements are separate financial statements.

Where required, equivalent disclosures are given in the Annual Report and Financial Statements of the Group as shown in notes 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. See also pages 69 to 70.

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) Amounts due from subsidiary undertakings

Amounts due from subsidiaries are initially recorded at their fair value. Subsequent to initial recognition, the loans are measured at amortised cost. In accordance with IFRS 9, the Company has undertaken an exercise of calculating the expected credit losses on the amounts due from subsidiaries. The Directors regard the relevant subsidiaries as having a relatively low probability of default on the loans and do not consider that there has been a significant increase in credit risk since the loan was first recognised. By virtue of their participation in Group bank pooling arrangements, the subsidiaries had access to sufficient facilities to enable them to repay the loans, if demanded, at the reporting date. Only immaterial amounts of expected credit losses were calculated and, therefore, the Company has chosen not to adjust the value of the loans for any expected credit loss provisions.

(d) Derivative financial instruments

As permitted by IFRS 9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured 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.

Valuation of investments

The Company tests annually whether its investments have suffered any impairment. The recoverable amounts of subsidiaries are determined based on value in use calculations or fair value less cost to sell, if held for sale. These calculations require the use of estimates.

As the intention is to sell one of the Group's direct subsidiaries within the next 12 months, the value of this investment is supported by an estimate of the net sales proceeds. Any reduction in value of the expected sales proceeds would require further impairments to be made to the investment value.

Considerable headroom exists when comparing the book value of the other investments with their recoverable amounts. Therefore, the Directors have determined that the investment value is not particularly sensitive to changes in the assumptions used in the value in use calculations. Any reasonable adjustment to any of the assumptions, would not result in an impairment of the investments.

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 loss for the year was £98.6m (2019: £74.6m profit).

The auditors' remuneration for audit services to the Company was £0.1m (2019: £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 101 to 121. The Company has no employees other than the Directors.

4 Dividends

Details of dividends paid by the Company are included in note 11 to the consolidated financial statements.

Financial Statements

Notes to the Company financial statements (continued)

For the year ended 30 June 2020

5 Investments

	2020 £m	2019 £m
At 1 July	486.2	479.0
Capital contributions	169.2	7.2
Impairment	(123.2)	–
At 30 June	532.2	486.2

Capital contributions of £5.4m were made during the year ended 30 June 2020 in relation to share based payments on behalf of subsidiaries (2019: £7.2m). The Company purchased additional shares in its subsidiary, Kier Living, on 11 January 2020 for £163.8m. The Directors assessed the recoverability of the investment in Kier Living and impaired the value by £123.2m.

The impairment noted in the year is in relation to the Company's investment in Kier Living, which is classified as an Asset Held for Sale on the Group's consolidated balance sheet. The investment has been written down to the fair value of expected proceeds less cost to sale of £110.0m.

Details of the Company's subsidiaries at 30 June 2020 are provided in note 34 to the consolidated financial statements.

6 Debtors

	2020 £m	2019 ¹ £m
Amounts falling due within one year:		
Other debtors	–	1.9
Deferred tax	2.0	0.7
	2.0	2.6
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings	1,382.7	1,261.5
	1,382.7	1,261.5

¹ Prior year comparative information has been re-presented to show £390.0m of amounts due to and from subsidiary undertakings gross.

7 Creditors

	2020 £m	2019 ¹ £m
Amounts falling due within one year:		
Borrowings	61.4	30.0
Corporation tax	9.7	9.1
Other creditors	1.0	2.5
	72.1	41.6
Amounts falling due after more than one year:		
Borrowings	689.8	473.4
Amounts due to subsidiary undertakings	117.1	389.5
	806.9	862.9

¹ Prior year comparative information has been re-presented to show £390.0m of amounts due to and from subsidiary undertakings gross.

Further details on borrowings are included in note 22 to the consolidated financial statements.

8 Derivative financial instruments

The Company has the following cross-currency swaps:

- Three cross-currency swaps taken out in 2013 to hedge the currency risk on a US dollar-denominated loan, nominal value US\$28.0m.
- Four cross-currency swaps taken out in 2014 to hedge the currency risk on a US dollar-denominated loan, nominal value US\$116.0m.
- Two cross-currency swaps taken out in 2016 to hedge the currency risk on a Euro-denominated loan, nominal value €20.0m

The Company has three interest rate swaps taken out in 2016 to hedge the interest rate risk on a sterling-denominated loan, nominal value £58.5m. During 2017 the Group reduced the value on one of the interest rate swaps from £15.0m to £10.0m and entered into an additional swap of £12.0m bringing the total value to £65.5m.

The Company has assessed the effectiveness of these swaps and concluded that they are 100% effective. Therefore, no amount in relation to hedge ineffectiveness has been charged or credited to the income statement in relation to any cross-currency or interest rate swap.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instruments:

	Fair value £m	Total £m	0–1 year £m	Expected cash flows 1–2 years £m	2–5 years £m
Cross-currency swaps: asset					
Gross settled inflows	–	139.2	13.9	20.5	104.8
Gross settled outflows	–	(116.9)	(12.3)	(17.1)	(87.5)
	30.4	22.3	1.6	3.4	17.3
Interest rate swaps: asset					
Net settled	(0.4)	(0.1)	(0.1)	–	–

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses cross currency and interest rate swaps for hedging. These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the bank counterparties using mid-market mark to market valuations for trades at the close of business on 30 June 2020.

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2020.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	30.4	–	30.4
Liabilities				
Derivatives used for hedging – Interest rate swaps	–	(0.4)	–	(0.4)

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2019:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	24.2	–	24.2
Liabilities				
Derivatives used for hedging – Interest rate swaps	–	(0.1)	–	(0.1)

There were no transfers between Levels 1 and 2 during the year.

9 Called up share capital

Details of the share capital of the Company are included in note 27 to the consolidated financial statements.

Financial Statements

Financial Record

(unaudited)

Continuing operations

Year ended 30 June	2020 £m	2019 ¹ £m	2018 £m	2017 £m	2016 £m
Revenue: Group and share of joint ventures	3,475.6	4,106.0	4,512.8	4,265.2	4,078.7
Less share of joint ventures	(53.1)	(154.9)	(273.2)	(153.5)	(90.9)
Group revenue	3,422.5	3,951.1	4,239.6	4,111.7	3,987.8
Profit					
Group operating profit ²	41.0	75.6	140.8	115.2	124.3
Share of post-tax results of joint ventures	(0.2)	10.1	42.7	25.0	14.2
Profit on disposal of joint ventures	0.6	–	3.5	5.4	2.6
Operating profit before adjusting items	41.4	85.7	187.0	145.6	141.1
Net finance costs before adjusting items	(24.5)	(24.3)	(23.1)	(19.5)	(24.7)
Profit before adjusting items and tax	16.9	61.4	163.9	126.1	116.4
Amortisation of acquired intangible assets relating to contract rights	(23.7)	(24.8)	(25.6)	(22.3)	(21.5)
Adjusting finance costs	(5.2)	(1.7)	(5.1)	(2.9)	(2.8)
Other adjusting items	(213.3)	(264.4)	(27.0)	(115.1)	(127.0)
(Loss)/profit before tax	(225.3)	(229.5)	106.2	(14.2)	(34.9)
Basic earnings per share before adjusting items	15.3p	30.9p	136.8p	106.8p	99.5p
Dividend per share	–	4.9p	69.0p	67.5p	64.5p
At 30 June					
Shareholders' funds (£m)	240.8	519.6	601.1	511.4	576.1
Net assets per share	148.8p	320.5p	616.8p	524.8p	600.0p

¹ The prior year comparative information has been re-presented to show Kier Living as a discontinued operation. See note 23.

² Stated before adjusting items. See note 1 for reference to adjusting items. FY2016 - FY2018 have not been re-presented on an adjusted basis.

Board of Directors

M J Lester
A O B Davies
S J Kesterton
J R Atkinson
A K Bashforth
H V Rabbatts
C G Watson

Secretary

H E E Raven

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Registered number

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Financial calendar

17 December 2020

Annual general meeting

March 2021

Announcement of half-year results for the six months ending
31 December 2020

September 2021

Announcement of preliminary full-year results for the year ending
30 June 2021

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