Registered number: 05606089

Kier Highways Limited
(formerly EM Highway Services Limited)

Annual Report and Financial Statement for the

9-month period ended 30 June 2015

Contents

Strategic Report

Principal Activities

Kier Highways Limited ("Kier Highways" and "the Company") formerly EM Highway Services Limited is an incorporated company and subsidiary of Mouchel Limited which is now owned by Kier Group plc ("Kier Group"). On 8 June 2015, the entire issued share capital of MRBL Limited, the former parent company of Mouchel Limited, was acquired by Kier Limited, a wholly owned subsidiary of Kier Group plc.

Kier Highways transitioned smoothly to the changed ownership during the period, which included a change of accounting period end from September to June to coincide with Kier Group reporting. This resulted in the Financial Statements being prepared for the 9-month financial period to June 2015. The comparatives are for the year ended 30 September 2014.

During October 2015, the company changed its name from EM Highway Services Limited to Kier Highways Limited.

Kier Highways is the leading highways asset maintenance and management provider in the UK, specialising in the delivery of road maintenance contracts. Kier Highways works collaboratively with its clients, customers, stakeholders and peers to deliver services that provide an excellent customer experience.

On 21 January 2015, Kier Highways purchased the entire shareholding in Mouchel Pty Ltd, a company registered in Australia. The Company has yet to commence trading but its principal activities will be to deliver integrated road asset management and maintenance contracts in Australia.

Financial Review

Kier Highways delivered another strong financial performance for the 9-month period to June 2015. Due to Kier Highways exceptional track record and performance, additional funding for network improvement schemes was secured. This financial period also included a full 9-months of turnover generated from the Highways England Area 9 contract (commenced July 2014).

Turnover increased by 42% to £387.5m for the 9-month financial period compared to £271.7m for 2014 (12-month financial period).

The underlying operating margin declined by 2% compared to 2014 following a review of the company's assets, and provisions were put in place following the Kier Group plc acquisition. Operating profit was £14.9m before non-underlying costs of £2.0m, compared to operating profit of £16.8m in 2014.

Operating cash flow for the period was strong at £37.4m. This allowed the business to continue to meet its funding requirements and invest in business development to support the growth aspirations of the business.

The Company is exposed to credit risk; but this is limited due to clients being public sector bodies with excellent payment performance.

Review of the business and future developments

Kier Highways has delivered exceptional performance again for our clients and customers on our contracts. We continue to support our clients in managing the transformation of their services during periods of austerity and investment.

In November 2014, Kier Highways was appointed to the Highways England (formerly Highways Agency) Collaborative Delivery Framework Lot 2.

Strategic Report (continued)

During December 2014, Kier Highways achieved the highest score for any provider during the Highways England (formerly Highways Agency) Strategic Alignment Review Tool (StART) Assessment. This further demonstrates our continued commitment and support towards collaboration and a seamless approach with our clients and supply chain partners in delivering customer focussed outcomes.

Kier Highways was the first Highways England service provider in this sector to achieve and then retain the Carbon Trust Standard, setting us apart from our competitors and providing tangible evidence that we are committed to reducing our carbon emissions in the long-term.

In January 2015, Kier Highways was awarded the Investors in Diversity accreditation. We are one of the first contractors within the highways industry to be accredited with this highly prized and prestigious benchmark standard for Equality, Diversity & Inclusion (ED&I) within the workplace; it provides us with an all-encompassing methodology for continuously improving ED&I practices.

The acquisition of the Company by the Kier Group on 8 June 2015 will create opportunities for further collaboration and provide benefits to our clients and supply chain partners, with the capabilities of the wider Kier Group.

The order book stood at £1,677m (£2,565m including available extensions) at June 2015. This represents a 25% reduction compared to 2014 order book of £2,234m predominantly due to delivery and contract maturity.

Post period-end we received extensions to both our Highways England Area 1 Managing Agent Contract (MAC) was extended until 30 June 2017 and Area 13 Managing Agent Contract (MAC) was extended until 31 March 2017. Kier Highways will continue to focus on retention and growth of market share within the Highways England market in order to achieve growth targets.

Key performance indicators

The Company uses a variety of performance measures to monitor and manage the business. Some of these are particularly important in monitoring progress and are therefore regarded as key performance indicators ('KPI's'). These measure past performance and also provide the business with the information needed to manage the Company on an ongoing basis.

The Company's KPI's comprise of turnover, underlying operating profit, underlying operating margin, order book and operating cash flow. Financial indicators measure the volume of work undertaken and its profitability. The order book provides visibility of secured future earnings.

	2015	2014	Increase / (decrease)
Turnover (£m)	387.5	271.7	115.8
Underlying operating profit (£m) [1]	14.9	16.8	(1.9)
Underlying operating margin (%)	4%	6%	(2%)
Operating cash flow (£m)	37.4	19.9	17.5
Order book (£m)	1,677.0	2,234.0	(557.0)

[1] Underlying operating profit and underlying operating margin are before non-underlying items of £2.0m (2014: £nil)

Strategic Report (continued)

Principal risks and uncertainties

The Company's business model is based around securing long term high value public sector contracts. Once a contract is secured it guarantees a significant volume of business for a relatively long period of time, typically five years or more.

Demand for the Company's services is heavily determined by government policies on public services and the role of the private sector. Kier Highways recognises that its clients are under increasing pressure to achieve significant efficiency gains while improving the quality of services. At the same time as presenting a risk, this pressure creates new market opportunities for companies like Kier Highways which has a demonstrable track record of achievement in this area.

Health and safety

The Board of Directors are responsible for providing health and safety leadership. Monthly health and safety updates are given to the Board. The Leadership Team is committed to safe working, evidenced through a Directors Safety Tour Programme which is adhered to religiously.

Kier holds an impressive health and safety record and the last year clearly shows how everybody within the Company is committed to making change happen when it comes to staying safe. A multitude of improvements have been made both at a contract level and within the company as a whole

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) and Accident Frequency Rates (AFRs) at the end of the period were as follows:

RIDDOR AFR

- 0.17 (Threshold: 0.20)

All Accident AFR

- 1.94 (Threshold: 2.15)

The Health and Safety Management System (HSMS) system provides access to a suite of corporate standards which define the company's policy on a range of key H&S topics and are supported by task specific risk assessments and safe working procedures. All documents have been written by task 'experts' from across the operational workforce to ensure that all risks and appropriate control measures have been identified.

Corporate responsibility

Kier Highways maintains a strong commitment to sustainability and recognises it has a collective responsibility, having an impact on the environment, communities and clients whom we serve. We will continue to embrace our corporate responsibilities.

On behalf of the Board of Directors,

....

Giuseppe Incutti, Director
30 March 2016

Directors' Report

The Directors present their annual report and the audited financial statements of the Company for the period ended 30 June 2015

Business Review

In its tenth year of trading, the Company has continued to grow in line with expectations. Turnover was £387.5m for the 9-month period to June 2015. Turnover was £271.7m for the 12-month period to 30 September 2014. Profit margins are in line with expectations.

Future Developments

The review of the business on pages 3-4 of the Strategic Report highlights potential future developments for the Company.

Financial risk management

The Company has one overseas business and significant cash balances which could expose the Company to the effects of changes in foreign currency exchange rates, changes in interest rates and credit risk.

The Board has identified that the Company is not currently exposed to:

Foreign exchange risk, as the oversees business is not currently trading;

Interest rate risk, as Kier Highways has no borrowing facilities or external funding and is part of the Kier Group cash pooling arrangement.

The Company is exposed to credit risk but this is limited due to clients being public sector bodies with excellent payment performance. The credit risk relating to other receivables and prepayments and accrued income has been considered by the Board and there is not considered to be any significant credit risk over and above any amounts already provided for.

The Company does not hold any equity securities that are available for sale and does not have any exposure to commodity price risk.

Health and Safety

The Board of Directors is responsible for providing health and safety leadership and for ensuring that decisions made are consistent with the Policy Statement. It has satisfied itself that competent resources exist to manage health and safety and adequate resources are made available for the policy to be implemented.

Employee Involvement

The Company is committed to the involvement and participation of all its employees through on-going communication and consultation so that their views are taken into account in decisions taken which may affect the business and the interests of the people employed in it.

In support of this, there is a Business Improvements database whereby employees can submit suggestions and a Knowledge Bank used for best practice sharing. The Company also operates a scheme whereby employees are rewarded for proposing ideas and solutions which benefit the Company.

Directors' Report (continued)

Disabled Employees

It is the Company's policy to ensure that disabled persons are treated fairly and consistently in terms of recruitment, training, career development and promotion and their employment opportunities should be based on a realistic assessment of their aptitudes and abilities. Wherever possible, the Company will continue the employment of persons who become disabled during the course of their employment with the Company through retraining, acquisition of special aids equipment or through the provision of suitable alternative employment.

Political Contributions

The Company did not make any political donations during the period (2014: Nil).

Dividends and Transfers to Reserves

The total recognised profit for the financial period of £10.1m (2014: £12.6m) has been distributed in full as part of the £13.3m (2014: £5.5m) dividends distribution in the period (refer to financial statements note 13). Post period end a dividend of £4.1m was approved and distributed during July 2015.

Going Concern

Given the current economic circumstances and the guidance issued by the Financial Reporting Council, additional disclosures are presented in note 1 to the financial statements. These disclosures detail the basis on which the Directors have continued to adopt the going concern basis in preparing these financial statements.

Directors and their Interests

The Directors who served during the period and up to the date of signing are shown in the Company Directory section at the end of the report. None of the Directors had any interest in the share capital of the Company.

Statement of Disclosure of Information to Auditors

In the case of each of the persons who are Directors of the Company at the date when this report is approved:

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

This confirmation is given and should be interpreted in accordance with the provision of section 418 of the Companies Act 2006.

On behalf of the Board of Directors,

....

Giuseppe Incutti, Director
30 March 2016

Directors' Responsibilities Statement

The Directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. Under that law the Directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Kier Highways Limited (formerly EM Highway Services Limited)

Report on the financial statements

Our opinion

In our opinion, Kier Highways Limited's (formerly EM Highway Services Limited) financial statements (the "financial statements"):

- give a true and fair view of the state of the company's affairs as at 30 June 2015 and of its profit and cash flows for the 9 month period (the "period") then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), comprise:

- the Balance Sheet as at 30 June 2015;
- the Profit and Loss Account for the 9-month period then ended;
- the Statement of Total Recognised Gains and Losses for the 9-month period then ended;
- the Cash Flow Statement for the 9-month period then ended;
- the Notes to the Cash Flow Statement; and
- the Notes to the Financial Statements, which include a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained in more detail in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

Independent Auditor's Report (continued)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Jonathan Hook (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
31 March 2016

FINANCIAL STATEMENTS

For the 9 month period ended 30 June 2015

Profit and Loss Account and Statement of Total Recognised Gains and Losses

Balance Sheet

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Notes to the Cash Flow Statement

Notes to the Financial Statements

Company Directory

Profit and Loss Account

For the 9-month period ended 30 June 2015

	Note	9-month period ended 30 June 2015 £m	Year ended 30 September 2014 £m
TURNOVER		387.5	271.7
Cost of sales - Underlying		(341.1)	(233.0)
- Exceptional costs	4	(2.0)	-
GROSS PROFIT		44.4	38.7
Other operating expenses		(31.5)	(21.9)
OPERATING PROFIT - Underlying	3	14.9	16.8
Non-underlying costs	4	(2.0)	-
OPERATING PROFIT	3	12.9	16.8
Interest receivable and similar income	5	-	0.1
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		12.9	16.9
Tax on profit on ordinary activities	6	(2.8)	(4.3)
PROFIT FOR THE FINANCIAL PERIOD/YEAR	13, 14	10.1	12.6

The above results all relate to continuing operations.

There are no material differences between the profit on ordinary activities before taxation and the profit for the financial periods stated above and their historical cost equivalents.

The accompanying notes on pages 17 to 32 form an integral part of these financial statements.

Statement of Total Recognised Gains and Losses

For the 9-month period ended 30 June 2015

	Note	9-month period ended 30 June 2015 £m	Year ended 30 September 2014 £m
PROFIT FOR THE FINANCIAL PERIOD/YEAR		10.1	12.6
Recognition of pension scheme assets	18	-	0.8
Actuarial loss on pension scheme	18	(0.1)	-
Deferred tax in respect of pension scheme	17	-	(0.2)
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE PERIOD/YEAR		10.0	13.2

Balance Sheet

As at 30 June 2015

	Note	£m	As at 30 June 2015 £m	£m	As at 30 September 2014 £m
FIXED ASSETS					
Tangible Assets	7		0.7		1.3
Retirement benefit assets	18		0.8		0.8
Investments	8		-		-
			1.5		2.1
CURRENT ASSETS					
Stocks	9	2.7		3.7	
Debtors	10	63.1		48.0	
Cash at bank and in hand	16	45.7		25.2	
		111.5		76.9	
CREDITORS: amounts falling due within one year	11	(100.6)		(63.3)	
NET CURRENT ASSETS			10.9		13.6
TOTAL ASSETS LESS CURRENT LIABILITIES			12.4		15.7
NET ASSETS			12.4		15.7
CAPITAL RESERVES					
Called up share capital	12		-		-
Share premium account	13		0.5		0.5
Profit and loss account	13		11.9		15.2
TOTAL SHAREHOLDER'S FUNDS	14		12.4		15.7

The notes on pages 17 to 32 are an integral part of the financial statements. The financial statements on pages 13 to 16 of Kier Highways Limited (formerly EM Highway Services Limited), registered company number 05606089, were approved by the Board of Directors on 30 March 2016.

Signed on behalf of the Board of Directors,

....

Giuseppe Incutti, Director
30 March 2016

Cash Flow Statement

For the 9-month period ended 30 June 2015

	Note	9-month period ended 30 June 2015 £m	Year ended 30 September 2014 £m
Net cash flows from operating activities	A	37.4	19.9
Returns on investments and servicing of finance Net interest		-	0.1
Taxation paid		(3.6)	(2.6)
Capital expenditure		-	(1.0)
Dividends paid	14	(13.3)	(5.5)
INCREASE IN CASH IN THE PERIOD/YEAR	B	20.5	10.9

Notes to the Cash Flow Statement

For the 9-month period ended 30 June 2015

A. *Reconciliation of operating profit to net cash inflow from operating activities*

		2015 £m	2014 £m
Operating profit Depreciation of tangible assets Decrease / (Increase) in stocks (Increase) in debtors Increase in creditors		12.9 0.6 1.0 (14.1) 37.0	16.8 0.6 (1.7) (7.0) 11.2
NET CASH FLOW FROM OPERATING ACTIVITIES		37.4	19.9

B. *Analysis of net funds*

The movement in cash balances in the 9-month period equates to the movement in net funds.

			£m
Cash balance at 1 October 2015 Cash inflow in the 9-month period			25.2 20.5
CASH BALANCE AT 30 JUNE 2015			45.7

Notes to the Financial Statements

For the 9-month period ended 30 June 2015

1. Accounting Policies

Basis of preparation

The financial statements are prepared in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. The company is exempt under s400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as the results of the group are included in the consolidated financial statements of Kier Group plc, which are publically available.

The particular accounting policies adopted are described below and have been applied consistently throughout the current period and the preceding period.

Accounting convention and basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards and the Companies Act 2006.

Related Party Disclosure

The Company is a wholly owned subsidiary of Mouchel Limited which is controlled by Kier Group plc and is included in the consolidated financial statements of Kier Group plc which are publicly available.

Consequently, the Company has taken advantage of the exemption allowed by FRS8 "Related Party Disclosures" not to disclose the related party transactions with undertakings controlled within the group.

Going concern

The performance, financial position and key risks impacting the Company are set out in the Strategic Report.

The Directors are of the opinion that the Company will continue to meet its performance obligations under its client contracts.

The Company has maintained detailed 12 month rolling forecast profit and loss accounts, balance sheets and cash flows throughout the financial period and continues to do so. These forecasts take into account reasonably possible changes and uncertainties. The 12 month rolling forecasts form part of a three-year financial plan which is reviewed quarterly. The three-year plan sits at the heart of a comprehensive three-year Business Plan which has been reviewed and approved by the shareholders and has been cascaded throughout the Management of the Company.

In carrying out their duties in respect of going concern, the Directors have carried out a comprehensive review of the Company financial position and cash flow forecast for a period of 12 months from the date of signing these financial statements. This review has taken account of client spend forecasts as well as any risk and uncertainty brought about by the current economic environment.

Having taken all of the above factors into consideration, the Directors have concluded that the Company should continue to adopt the going concern basis for preparing the annual report and financial statements.

1. Accounting Policies (continued)

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Short term leasehold property	Over the term of the lease
Plant and machinery	3 to 8 years
Fixtures and Fittings	3 to 8 years
Computer and office equipment	3 to 5 years
Motor vehicles	3 to 5 years

Investments in subsidiaries

Investments in subsidiary undertakings are stated at cost less provisions for any impairment in value.

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Turnover

Turnover represents amounts derived from the provision of services under the Company's framework contracts which fall within the Company's ordinary activities after deduction of value added tax. The turnover and pre-tax profit, all of which arises in the United Kingdom, is attributable to the Company's principal activity. Turnover and profits are recognised in line with the level of contract activity. Amounts recoverable on contracts is the difference between the turnover recognised and the amounts actually invoiced to customers. Where invoicing exceeds the amount of turnover recognised these amounts are included in deferred income.

Contracts

The activities of the Company are largely undertaken through long-term framework contracts under which turnover and profit are recognised in line with each separate supply. Where losses are foreseeable in respect of future supplies committed under those contracts, provision is made. In addition, a provision is maintained for future remedial works that may be required in respect of supplies already made.

Pre-contract costs are expensed as incurred until it is virtually certain that a contract will be awarded, from which time further pre-contract costs are recognised as an asset and charged to the income statement over the period of the contract.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

1. Accounting Policies (continued)

Timing differences are differences between the Company's taxable profit and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are re-valued unless by the balance sheet date there is a binding agreement to sell the re-valued assets and the gain or loss expected to arise on the sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets and liabilities have not been discounted.

Stocks

Stocks are valued at the lower of cost and net realisable value after making due allowance for obsolete and slow moving stocks.

Pension costs

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contribution payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or pre-payments in the balance sheet.

Defined benefit scheme

The asset recognised in the balance sheet for the Company's defined benefit pension scheme is the present value of the defined benefit obligation at the balance sheet date as adjusted for unrecognised past service cost, less the fair value of the scheme assets. The defined benefit obligation is calculated by independent actuaries using the projected unit credit method and by discounting the estimated future cash flows using interest rates on high quality corporate bonds that have terms to maturity approximating the terms of the related pension liability. Any asset resulting from this calculation is limited to unrecognised past service cost plus the present value of available refunds and reductions in future contributions to the scheme.

The pension expense for the defined benefit schemes is recognised as follows:

Within operating profit

Current service cost – representing the increase in the present value of the defined benefit obligation resulting from employee service in the current period;

Gains and losses arising on settlements and curtailments – where the item that gave rise to the settlement or curtailment is recognised within operating profit.

1. Accounting Policies (continued)

Within finance income/expense on pension schemes

Interest cost on the liabilities of the scheme – calculated by reference to the scheme liabilities and discount rate at the beginning of the year and allowing for changes during the period; and

Expected return on the assets of the scheme – calculated by reference to the scheme assets and long-term expected rate of return at the beginning of the year and allowing for changes during the 9-month period.

Within the statement of recognised gains and losses

Actuarial gains and losses arising on the assets and liabilities of the scheme.

Subsequent events

No significant events have occurred subsequent to the period-end that require disclosures in these financial statements or adjustments to the amounts reported therein, other than the dividend declared (note 20).

Non-underlying items

Material and non-recurring items of income and expense are disclosed in the profit and loss account as "Non-underlying items" where these items are exceptional in nature due to their size or incidence. Examples of items which may give rise to disclosure as "Non-underlying items" include gains or losses on disposal of businesses, costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses, asset impairments and pension fund settlements and curtailments.

2. Information Regarding Directors and Employees

		2015	2014
		Number	Number
Average number of persons employed (including directors)			
Management and administration		918	782
Direct labour		590	626
		1,508	1,408

		£m	£m
Staff costs during the period/year			
Wages and salaries		41.1	38.4
Social security costs		4.4	4.0
Other Pension costs		1.4	1.2
		46.9	43.6

The directors did not receive any emoluments from the Company during the current or prior period because they are remunerated by Mouchel Limited and it is not possible to make an accurate apportionment of the emoluments in respect of Kier Highways. Their remuneration is included in the aggregate emoluments disclosed in the financial statements of Mouchel Limited.

3. Operating Profit

	2015 £m	2014 £m
Operating profit is stated after charging:		
Depreciation	0.6	0.6
Rentals under operating leases		
Plant and machinery	4.0	3.8
Others	0.6	1.2

The fees payable to the Company's auditors for the audit of the Company's annual financial statements were £45,000 (2014: £45,000).

There were no other non-audit services incurred in the 9-month period (2014: nil).

4. Non-underlying costs

Contract review undertaken following Kier Group plc acquisition and provisions put in place for future losses. These have been classed as a material, non-recurring item.

		2015 £m	2014 £m
Other provisions		2.0	-

5. Interest Receivable and similar income

		2015 £m	2014 £m
Bank interest receivable		-	0.1

6. Tax on Profit on Ordinary Activities

	2015 £m	2014 £m
UK Corporation tax on profits for the period/year	3.9	3.8
Adjustment in respect of prior years	-	0.4
Total current tax	3.9	4.2
Deferred taxation		
Current period/year charge	-	0.1
Origination and reversal of temporary differences	(1.2)	-
Effect of change in tax rate	0.1	-
Adjustments in respect of prior years	-	-
Total deferred tax charge for the period/year	(1.1)	0.1
Total taxation charge for the period/year	2.8	4.3

The tax figures disclosed above exclude any debt capitalisation and transfer pricing adjustments.

Any unmatched differences arising from the debt capitalisation and transfer pricing adjustments will be borne by Kier Ltd.

6. Tax on Profit on Ordinary Activities (continued)

The tax assessed on the profit on ordinary activities for the 9-month period is lower (2014: higher) than the standard rate of corporation tax in the UK of 20.67% (2014: 22%).The differences are explained below:

	2015 £m	2014 £m
Profit on ordinary activities before taxation	12.9	16.9
Tax at 20.67% (2014: 22%)	2.7	3.7
Expenses not deductible for tax purposes	-	0.2
Capital allowances for the period in excess of depreciation	0.1	(0.1)
Other short term timing differences	1.1	-
Adjustment in respect of prior years	-	0.4
Current taxation charge for the period/year	3.9	4.2

7. Tangible Fixed Assets

	Land and buildings £m	Plant and machinery £m	Fixtures and fittings £m	Computer and office equipment £m	Total £m
Cost					
At 1 October 2014	2.8	0.3	0.3	0.9	4.3
Disposals	(0.1)	-	-	-	(0.1)
At 30 June 2015	2.7	0.2	0.4	0.9	4.2
Accumulated depreciation					
At 1 October 2014	2.4	-	0.2	0.4	3.0
Charge for the period	0.4	0.1	-	0.1	0.6
Eliminated on Disposal	(0.1)	-	-	-	(0.1)
At 30 June 2015	2.7	0.1	0.2	0.5	3.5
Net Book Value At 30 June 2015	-	0.1	0.2	0.4	0.7
At 30 September 2014	0.4	0.1	0.2	0.6	1.3

8. Investments

Investments in group undertakings:

		£m
Investments in group undertakings: Balance at 1 October 2014 Additions		 - -
Balance at 30 June 2015		-

The investment represents 100% of the shareholding in Mouchel Pty Ltd, a company registered in Australia. These shares were purchased on 21 January 2015 for $100. Principal activities will be to deliver integrated road asset management and maintenance contracts in Australia. The directors believe that the carrying value of the investment is supported by the underlying net assets.

9. Stocks

	2015 £m	2014 £m
Raw materials and consumables	2.7	3.7

There is no material difference between the balance sheet value of stocks and their replacement cost.

10. Debtors

	2015 £m	2014 £m
Amounts due within one year:		
Trade debtors	8.0	8.0
Amounts owed by group undertakings	4.1	3.0
Amounts recoverable on contracts	48.2	34.5
Other debtors	0.1	0.6
Prepayments and accrued income	1.4	1.7
Deferred tax asset (see note 17)	1.3	0.2
	63.1	48.0

11. Creditors: Amounts falling due within one year

	2015 £m	2014 £m
Trade creditors	32.5	4.6
Amounts owed to group undertakings	3.9	1.9
Group relief	2.4	2.1
Other creditors including taxation and social security	7.9	5.1
Accruals and deferred income	53.7	49.4
Deferred tax liability (see note 17)	0.2	0.2
	100.6	63.3

12. Called Up Share Capital

	2015 £m	2014 £m
Authorised 100,000 (2014: 100,000) Ordinary shares of £1 each	0.1	0.1
Called up, allotted and fully paid 20,002 (2014: 20,002) Ordinary shares of £1 each	-	-

Following the acquisition on 21 February 2013, by Mouchel Limited of 10,001 A Shares held by Enterprise (AOL) Limited, the entire issued share capital of the Company, being all of the issued A Shares and issued B Shares, has been held by Mouchel Limited.

13. Reserves

	Share premium account £m	Profit and loss account £m
At 1 October 2014	0.5	15.2
Profit for the financial period after taxation	-	10.1
Actuarial loss on pension scheme	-	(0.1)
Dividends paid	-	(13.3)
At 30 June 2015	0.5	11.9

14. Reconciliation of Movements in Shareholders' Funds

	2015 £m	2014 £m
Opening shareholders' funds	15.7	8.0
Profit for the financial period/year	10.1	12.6
Dividends paid	(13.3)	(5.5)
Recognition of pension scheme assets	-	0.8
Actuarial loss on pension scheme	(0.1)	-
Deferred tax in respect of pension scheme	-	(0.2)
Closing shareholders' funds	12.4	15.7

15. Dividends

	2015 £m	2014 £m
Equity – ordinary £666.18 per share (2014:£274.97 per share)	13.3	5.5

16. Financial Commitments

	2015 Land and buildings £m	2015 Other £m	2014 Land and buildings £m	2014 Other £m
Leases which expire:				
Within one year	-	0.1	0.1	0.7
Within 2 to 5 years	0.4	3.2	0.3	2.8
After 5 years	0.3	0.2	0.3	0.2
	0.7	3.5	0.7	3.7

Of the cash balance £15.8m (2014: £16.1m) is restricted by virtue of it being held within project bank accounts.

17. Deferred Taxation

The movements in deferred taxation during the current period are as follows:

		£m
Deferred tax asset:		
Balance at 1 October 2014		0.2
Transferred to profit and loss account		1.1
Effect of rate change		(0.1)
Balance at 30 June 2015 (see note 10)		1.2

		£m
Deferred tax liability:		
Balance at 1 October 2014		(0.2)
Transferred to profit and loss account		-
Balance at 30 June 2015 (see note 11)		(0.2)

The amounts provided in the financial statements are as follows:

	2015 £m	2014 £m
Accelerated capital allowances	0.1	0.2
Pension asset	(0.2)	(0.2)
Other timing differences	1.1	-
	1.0	-

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. Further changes were announced in the Chancellor's Budget on 16 March 2016 to reduce the main corporation tax rate to 17% from 1 April 2020. The impact would not be material.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax asset by an additional £129k.

No deferred tax has been provided on £2.0m of losses as it is unlikely to be utilised in the foreseeable future.

18. Pension Commitments

Kier Highways operate a money purchase pension scheme provided by Legal & General and also participate in 2 defined benefit arrangements in respect of ex-local authority staff who have TUPE transferred to Kier Highways and require the Company to offer comparable LGPS pension benefits.

In respect of the Legal & General scheme the pension cost charge for the period representing contributions payable by the Company to the Legal & General Scheme amounted to £0.3m (2014: £0.6m).

In respect of the ex-Local Authority staff who have TUPE transferred to Kier Highways the Company participates in the Prudential Platinum Pension Scheme and is an admitted body status employer in the LGPS Croydon scheme. The Prudential Platinum Scheme ("the Scheme") is an external sectionalised multi-employer final salary pension arrangement. The assets of the Kier Highways section are administered by Trustees in funds independent of those of the Company and other sections of the Scheme. The administration is also conducted by external professional Pension Administrators.

The terms of the Scheme allow the Company to exit when the last member has left employment without additional payments, provided the related assets equal or exceed the value of the past service liabilities on a buy-out basis. However, if the estimated value of the assets arising from the Company's contributions is less than the value of the past service liabilities for which the Company is responsible, then the Company will be required to make good the shortfall.

The Scheme is subject to regular review and the Employer's contribution in relation to future service is adjusted accordingly. Additional employer contributions also fall due if a past service deficit is identified on a buy-out basis.

The actuarial value relating to the Company's share of the scheme assets and liabilities at 30 June 2015 was equal to a net asset of £0.8m (2014: £0.8m).

In respect of the admitted body status in one LGPS scheme Kier Highways is not directly liable for the funding obligation through protection mechanisms in the client contract. This means an accurate valuation cannot be made. The pension cost in respect of the scheme is therefore treated as if it was a defined contribution scheme.

A summary of the disclosures in the Balance Sheet and Profit and Loss Account are as follows:

	Period ended 30 June 2015 £m	Year ended 30 September 2014 £m
Balance Sheet		
Value of assets	4.1	3.6
Value of liabilities	(3.3)	(2.8)
Surplus in the scheme	**0.8**	**0.8**
Deferred tax liability	(0.2)	(0.2)
Net asset	**0.6**	**0.6**
Profit and Loss Account		
Current service cost	(0.2)	(0.3)
Interest cost	(0.1)	(0.1)
Expected return on assets	0.2	0.2
Overall profit and loss charge	**(0.1)**	**(0.2)**

18. Pension Commitments (continued)

The current service cost represents the cost of the pension rights accrued in the period (net of employee contributions), pension sub-scheme expenses and the death in service insurance premiums paid. The Pensions Protection Levy is paid directly by the Company and as such has not been included.

The current service cost of £0.2m (2014: £0.3m) is included within cost of sales.

The amounts recognised in the Balance Sheet are as follows:

	30 June 2015 £m	%	30 September 2014 £m	%
Equities and diversified growth funds	0.6	15	0.5	14
Bonds and gilts	3.5	85	3.1	86
Fair value of plan assets	**4.1**	100	**3.6**	100
Present value of obligations	(3.3)		(2.8)	
Asset in the Balance Sheet	**0.8**		**0.8**	

The change in the surplus can be analysed as follows:

	2015 £m	2014 £m
Surplus at beginning of period / year	0.8	0.8
Current service cost	(0.2)	(0.3)
Employer contributions	0.2	0.3
Actual less expected investment return	0.1	0.1
Change of basis	(0.2)	(0.2)
Expected return on assets	0.2	0.2
Interest cost	(0.1)	(0.1)
Surplus at end of period / year	**0.8**	**0.8**

Movement in assets during the period / year:

	2015 £m	2014 £m
Scheme assets at beginning of period / year	3.6	3.1
Movement in period:		
Expected return on scheme assets	0.2	0.2
Employer contributions	0.2	0.3
Benefits paid	-	(0.1)
Actuarial gain	0.1	0.1
Scheme assets at end of period / year	**4.1**	**3.6**

Scheme assets do not include any of the Company's own financial instruments or any property occupied by the Company.

18. Pension Commitments (continued)

Movement in liabilities during the period:

	2015 £m	2014 £m
Scheme liabilities at beginning of period / year	(2.8)	(2.3)
Movement in period:		
Current service cost	(0.2)	(0.3)
Interest cost	(0.1)	(0.1)
Benefits paid	-	0.1
Actuarial loss	(0.2)	(0.2)
Scheme liabilities at end of period / year	**(3.3)**	**(2.8)**

Key financial assumptions used are noted below:

	2015	2014
Discount rate	3.9%	4.0%
Retail price inflation	3.4%	3.2%
Consumer price inflation	2.3%	2.2%
Pensionable salary increases	3.4%	3.2%
Revaluation of deferred benefits	3.4%	3.2%
Pension increases:		
In line with RPI	3.4%	3.2%
In line with CPI	2.3%	2.2%

The assumed life expectancies based on an assumed retirement age of 65 are:

Retiring today:	2015	2014
Males	87.3	87.3
Females	89.3	89.3
Retiring in 20 years' time:		
Males	88.6	88.6
Females	90.8	90.8

Projected Profit and Loss Account cost items for the period ending 30 June 2016:

	£m
Current service cost	(0.3)
Interest cost	(0.1)
Expected return on assets	0.2
Overall Profit and Loss charge	**(0.2)**

The cumulative amount of actuarial losses recognised in the Statement of Total Recognised Gains and Losses is £0.6m (2014: £0.5m).

The Company expects to contribute £0.4m to its defined benefit pension scheme in 2016.

Historical amounts in respect of the scheme are as follows:

	2015 £m	2014 £m
Plan assets	4.1	3.6
Defined benefit obligation	(3.3)	(2.8)
Surplus	0.8	0.8
Experience adjustments on plan assets	0.1	0.1
Experience adjustments on plan liabilities	(0.2)	(0.2)

19. Ultimate Controlling Party

Kier Highways Limited (formerly EM Highway Services Limited) is a subsidiary of Mouchel Limited which was controlled by MRBL Limited. On 8 June 2015 the entire share capital of MRBL Limited was acquired by Kier Limited, a wholly owned subsidiary of Kier Group plc. From this date, the results, assets and liabilities of Kier Highways Limited (formerly EM Highway Services Limited) have been consolidated with Kier Group plc, the ultimate parent company.

The ultimate controlling party and the parent of the smallest and largest group for which consolidated financial statements are prepared of which the Company is a member is Kier Group plc, a company incorporated in England and Wales. Copies of the Group financial statements have been filed with Companies House, Crown Way, Cardiff where they are available to the public.

20. Post Balance Sheet Events

On 31 July 2015 a dividend of £4,146,000 was approved and distributed to Mouchel Limited.

Company Directory

Directors:

Keith Jackson
Miles Barnard (resigned 1 October 2015)
David Wright (appointed 1 October 2015)
Giuseppe Incutti (appointed 1 October 2015)

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SG19 2BD

Registration Number:

05606089

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Bankers:

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Independent Auditors:

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Chartered Accountants and Statutory Auditors
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