

Registration number: 05606089

Kier Highways Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2016

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Kier Highways Limited

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Kier Highways Limited

Company Information

Directors	David Wright Giuseppe Incutti Keith Jackson
Company secretary	Bethan Melges
Registered office	Tempsford Hall Sandy Bedfordshire SG19 2BD
Bankers	National Westminster Bank plc 13 Stonehills Welwyn Garden City Herts AL8 6ND
Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors London

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2016

The directors present their strategic report for Kier Highways Limited (the "Company") for the year ended 30 June 2016. In the prior period, the Company changed its accounting reference date to 30 June; accordingly, the comparatives are for the nine months ended 30 June 2015.

Review of the business

As at 30 June 2016, Kier Highways Limited was a wholly owned subsidiary of Mouchel Limited within the Kier Group plc group of companies (the "Kier Group" and the "Group"). With effect from 11 October 2016, as part of an inter-group reorganisation, the shares in the Company were transferred to Kier Limited, a fellow Kier Group company.

Kier Highways is the leading highways asset maintenance and management provider in the UK, specialising in the delivery of road maintenance contracts, managing assets to maximise their value whilst supporting the economic and social wellbeing of communities. Kier Highways works collaboratively with its clients, customers, stakeholders and peers to deliver services that provide an excellent customer experience.

The Company delivered another strong performance for the financial year to June 2016 against a backdrop of budgetary pressures leading to reduced levels of funding from its' largest client, Highways England.

Revenue to June 2016 of £389.9m remained broadly in line with that to June 2015 of £387.5m (9 month period). The reduction on a like for like basis is due to the reduced levels of funding described above which in turn resulted in Highways England reducing expenditure on renewals and improvements on the highway networks, serviced by the company's current contracts with Highways England.

Operating profit increased in the year by £18.2m to £31.2m (prior period £13.0m). This improvement was attributable to two main factors which had a broadly comparable impact on profit for the year.

Firstly, prior year margin was reduced due to the impact of two principal one off non-recurring factors;

- One of the largest contracts, representing approximately a third of the turnover of the business, was renewed in the prior period. The margin on the new contract was initially less than that on the previous contract which was in maturity. Consequently, during the period to 30 June 2015, margin on the new contract was 43% lower than that of the previous financial period ended 30 September 2014. This contract is in maturity throughout the period ended 30 June 2016.
- A review of the company's assets was undertaken at the time of its acquisition by Kier in June 2015 and a provision against the balance of an amount to be received from a client was increased. This followed the client interpreting elements of a contract in a way which reduced the assessed value of work which the company had completed

Secondly, operating margins improved during 2016 due to two principal factors;

- Overhead cost reductions, largely driven by synergies associated with the integration of the Company into the Kier Group
- The mix of work changing as a result of the reduction in revenue in the period which allowed a larger proportion of work to be completed utilising internal resources rather than third parties

A reduction in trade receivables of £15.1m (24%) to £46.7m is directly linked to the reduction in trade payables of £37m (38%) and follows the reduced levels of turnover on a like for like basis, and in particular the comparative levels during the final quarter of the respective period which is the key determinant of trade receivables and payables balances at the balance sheet date. The impact on payables is slightly larger because proportionally more work was delivered by in house resources rather than third parties as turnover reduced.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2016 (continued)

Following the Kier Group acquiring Mouchel Limited in June 2015, a project was undertaken during 2016 to bring together the highways businesses in the Group such that they collaborate effectively to yield synergies for the Group and its clients. These synergies were a contributory factor in the overhead savings affecting 2016 operating profit described above.

During the previous financial year, Kier Highways was the first organisation in its field to receive BS11000 accreditation for its end-to-end collaborative working approach, and in June 2016, Kier Highways pioneered the UK's first BS11000 alliance arrangement for small and medium enterprises (SMEs). Thirteen SME members of the Area 3 supply chain achieved certification to BS11000 Collaborative Business Relationships as part of a new alliance approach to certification, developed by the Kier Group and British Standards Institution (BSI). Frank Lee, EMEA Compliance and Risk Director, BSI commented: "This is a unique initiative and Kier should be proud that they are the first to achieve certification to this scheme. Leadership has been a fundamental part of gaining certification and members of the alliance are already seeing the benefits of closer working relationships."

The Company has remained the highest performing services provider to Highways England throughout the year and holds the highest score on the client's Strategic Alignment Review Toolkit (StART),

The Company was successful in trialling low temperature asphalt across a number of contracts, delivering a carbon saving of 38%. This was achieved alongside the introduction of Smartwaste across Kier Highways to record and manage its waste data.

The order book stood at £1,201m at June 2016, compared to a 2015 order book of £1,677m. The 28% reduction is due to delivery through the duration of the contracts.

The Company's key financial and other performance indicators during the year were as follows:

	Unit	2016	2015
Gross profit margin	%	14.10	11.50
Operating profit margin	%	7.90	3.30
Current Ratio *		1.50	1.10

** The current ratio is a liquidity ratio that measures a company's ability to pay short-term and long-term obligations. The current considers the current total assets of the Company to the Company's current total liabilities.*

Employee engagement: Our people are on the front line of the delivery of essential services which means that their overall levels of satisfaction and engagement are a key factor in our ability to deliver a great service for our clients. We measure satisfaction through the Kier Group biennial employee survey. The 2016 survey resulted in employee engagement of 52% and identified several focus areas which management can build upon.

Principal risks and uncertainties

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

The nature of the industries and the business environment in which the Company operates are low risk. However it is recognised that it is not possible to eliminate all such risks and uncertainties, the Company has well-established risk management and internal control systems to manage them.

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

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2016 (continued)

The Company's principal risks are set out below, together with a summary of the actions taken to mitigate each risk.

Contract delivery

The Company has numerous live contracts at any point in time and the risks to which the Company is exposed are dependent on the nature of the work, the location, the duration and the legal form of the contract, amongst other matters. If these risks are not managed effectively, the Company may suffer contract losses, delays and potential reputational damage.

The Kier Group has an increasing focus on longer-term service contracts. Potential risks are mitigated, controlled and managed through the Kier Group's operating structure and procedures. These include regular contract reviews of financial performance against budget as well as comparing against tender by using a suite of key performance indicators and benchmarking against competitors. Contract risk registers are also reviewed on a monthly basis and any performance issues are the subject of Corrective Action Plans.

People

The Company depends on a flexible, highly skilled, diverse and well-motivated workforce. If the Company does not succeed in attracting, developing and retaining skilled people, as well as understanding and embracing the diversity of those people, it will not be able to grow the business as anticipated.

The Company monitors employee turnover closely. Pay and conditions are reviewed against the prevailing market to ensure that the Company remains competitive. The Company participates in the Kier Group's succession planning and employee development processes. These include an ongoing talent review process and the completion of succession planning analysis across all business units.

Tender Pricing

Clients are under increasing pressure to achieve significant efficiency gains while improving the quality of services. This could in turn make tendering processes more price orientated, such that price may become the key determinant of whether a bid is successful. Differentiation on quality rather than price is more difficult where tendering processes are price driven. Consequently, reduced margin expectations may be necessary in order to secure new contracts which will put pressure on future margins.

To mitigate this risk, the Company continually strives to improve its service proposition to distinguish itself from a qualitative perspective whilst ensuring that it offers innovative market leading value for money solutions to its clients. 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 business. Furthermore, it leverages its established client relationships to influence the approach adopted by clients on further tenders.

Safety

The Company's activities are inherently complex and potentially hazardous and require the continuous monitoring and management of safety, health and environmental ("SHE") risks.

Failure to manage these risks could result in injury to employees, subcontractors, members of the public or damage to the environment which in turn may expose the Company to significant liability and reputational damage.

Detailed policies and procedures exist to minimise such risks and are subject to review and monitoring by the operating business and Kier Group SHE specialists.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2016 (continued)

Safety (continued)

The Company has a director who is responsible for co-ordinating health & safety activities including an incentive programme available to employees for health & safety observations on the network. The SHE audit programme identifies common areas of non-compliance across the Kier Group, helping to drive improvements. Compliance is monitored in a number of ways including audit, leadership tours and inspections.

The Kier Group's behavioural change programme is designed to change behaviours at the supervisor and workforce level while the Visible Leadership Programme is encouraging engagement by management with employees working on the network.

Reputation

The Company's ability to tender for new business and its relationship with customers, supply chain partners, employees and other stakeholders is founded on the good reputation that it has established and how it is perceived by others. The Company's growth targets may not be achieved if its reputation is adversely affected.

With the increasing profile of the Company as part of the wider Kier Group, the ability to monitor and measure the Kier Group's reputation through client and customer feedback is key. The steps taken by the Kier Group to maintain, protect and enhance its reputation include Group-wide customer satisfaction monitoring, maintaining relations with Government, effective leadership, community engagement and striving to operate a safe and sustainable business.

In addition, the management of the Company's principal risks, as described in this section of the Annual Report, assists to maintain and protect its reputation.

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 reduction in Accident Frequency Rate (AFR) 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, Disease and Dangerous Occurrences Regulations (RIDDOR) and AFRs at the end of the year were as follows:

RIDDOR AFR

- 0.13 (Threshold: 0.20)

All Accident AFR

- 1.8 (Threshold: 2.15)

The Health and Safety Management System (HSMS) 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.

Approved by the Board on 22 December 2016 and signed on its behalf by:

Giuseppe Incutti
Director

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2016

The directors present their report and the audited financial statements for the year ended 30 June 2016.

Directors of the Company

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

David Wright (appointed 1 October 2015)

Giuseppe Incutti (appointed 1 October 2015)

Keith Jackson

Miles Barnard (resigned 1 October 2015)

Financial instruments

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

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

- Foreign exchange risk, as the Australian subsidiary is not currently trading; and
- Interest rate risk, as Kier Highways has relatively low borrowing facilities and external funding and is part of the Kier Group cash pooling arrangement.

The Company is exposed to credit risk, but this is very limited due to the overwhelming majority of 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.

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

Employment of disabled persons

The companies in the Kier Group, of which the Company is a member, are equal opportunities employers. The Group considers applications for employment from disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during their employment.

Employee involvement

Key to sustainable growth for the Company will be attracting and retaining the best talent. A balanced business, which makes the most of the diversity of talent and experience available, will ensure it has the agility and resilience to deliver sustainable growth.

The Kier Group provides information to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. The Group operates the Kier Group plc 2006 Sharesave Scheme for eligible employees and a Share Incentive Plan for all employees, which includes a share-matching element. The Group also makes available a dealing service to enable employees to buy and sell its shares.

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2016 (continued)

Environmental matters

The health and safety of all those who visit and work at the Group's sites, together with the protection of the environment are key priorities for the Kier Group. Accordingly, the Group has a well-established and robust governance structure, led by the Kier Group Safety, Health and Environment ('SHE') Committee, to ensure that safety, health and environment matters are appropriately managed.

The role of the SHE Committee includes:

- * Assisting the Kier board to review the Kier Group's strategy with respect to SHE matters;
- * Encouraging management accountability with respect to managing the Kier Group's SHE risks;
- * Reviewing and, as necessary, approving material group-wide SHE initiatives, policies and procedures;
- * Receiving reports on any major SHE incidents; and
- * Monitoring the Kier Group's performance against SHE targets.

For further information on Kier Group's activities with regards to Safety, Health and Environment, please see the Kier Group plc 2016 Annual Report (available at www.kier.co.uk).

Social and community issues

The Kier Group attaches great importance to its corporate responsibility, as evidenced by the Resources and Relationships section in the Kier Group plc 2016 Annual Report and its full Corporate Responsibility Report for 2016, which is available on www.kier.co.uk. As a member of the Kier Group, the Company abides by the same principles.

Future developments

The Directors of Kier Highways Limited do not envisage any significant changes in the foreseeable future from the Company's overall strategy, nor of the Company's role within the Group.

Going concern

Given the current economic circumstances and the guidance by the Financial Reporting Council, additional disclosures are presented in note 2 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' liabilities

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

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

Disclosure of information to the auditors

Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

Reappointment of auditors

In accordance with section 485 of the Companies Act 2006, a resolution for the re-appointment of PricewaterhouseCoopers LLP as auditors of the Company is to be proposed to shareholders.

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2016 (continued)

The Annual Report and Financial Statements were approved by the Board of Directors on *22 December 2016* and signed on its behalf by:



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Giuseppe Incutti
Director

Kier Highways Limited

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ('FRS 101'). 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 apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify its shareholders in writing about the use of disclosure exemptions, if any, of FRS101 used in the preparation of 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.

Kier Highways Limited

Independent Auditors' Report to the members of Kier Highways Limited

Report on the financial statements

Our opinion

In our opinion, Kier Highways Limited's Financial Statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 30 June 2016 and of its profit for the year 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, comprise:

- the Statement of Financial Position as at 30 June 2016;
- the Income Statement and Statement of Comprehensive Income for the year then ended;
- the Statement of Changes in Equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (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 Directors' Report for the financial year 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.

Kier Highways Limited

Independent Auditors' Report to the members of Kier Highways Limited (continued)

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of Directors' Responsibilities on page 9, 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.

What an audit of financial statements involves

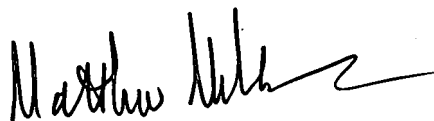
We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.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



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Matthew Mullins (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

23 December 2016.

Kier Highways Limited

Income Statement for the Year Ended 30 June 2016

	Note	2016 £ 000	9 month period to June 2015 £ 000
Revenue	4	389,943	387,513
Cost of sales		<u>(334,811)</u>	<u>(343,141)</u>
Gross profit		55,132	44,372
Administrative expenses		(15,568)	(15,245)
Operating expenses		<u>(8,713)</u>	<u>(16,217)</u>
Operating profit	5	30,851	12,910
Finance income	6	<u>369</u>	<u>44</u>
Profit before tax		31,220	12,954
Income tax expense	10	<u>(7,467)</u>	<u>(2,812)</u>
Profit for the year		<u><u>23,753</u></u>	<u><u>10,142</u></u>

The above results were derived from continuing operations.

Kier Highways Limited

Statement of Comprehensive Income for the Year Ended 30 June 2016

	Note	2016 £ 000	9 month period to June 2015 £ 000
Profit for the year		23,753	10,142
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of post employment benefit obligations	18	<u>61</u>	<u>(43)</u>
Total comprehensive income for the year		<u><u>23,814</u></u>	<u><u>10,099</u></u>

The notes on pages 16 to 34 form an integral part of these financial statements.


Kier Highways Limited

(Registration number: 05606089)

Statement of Financial Position as at 30 June 2016

	Note	2016 £ 000	2015 £ 000
Assets			
Non-current assets			
Property, plant and equipment	11	883	761
Retirement benefit assets	18	925	791
Deferred tax assets	10	79	1,096
		<u>1,887</u>	<u>2,648</u>
Current assets			
Inventories	13	2,720	2,699
Trade and other receivables	14	46,656	61,742
Cash and cash equivalents		43,694	45,691
		<u>93,070</u>	<u>110,132</u>
Total assets		<u>94,957</u>	<u>112,780</u>
Equity and liabilities			
Current liabilities			
Trade and other payables	20	61,248	98,270
Loans and borrowings	16	282	-
Deferred income		695	1,981
		<u>62,225</u>	<u>100,251</u>
Non-current liabilities			
Loans and borrowings	16	535	-
Total liabilities		<u>62,760</u>	<u>100,251</u>
Equity			
Called up share capital	15	20	20
Share premium reserve		480	480
Profit and loss account		31,697	12,029
Total equity		<u>32,197</u>	<u>12,529</u>
Total equity and liabilities		<u>94,957</u>	<u>112,780</u>

The financial statements on pages 12 to 34 approved by the Board on 22 December 2016 and signed on its behalf by:

Giuseppe Incutti 
Director

Kier Highways Limited

Statement of Changes in Equity for the Year Ended 30 June 2016

	Called up share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 July 2015	20	480	12,029	12,529
Profit for the year	-	-	23,753	23,753
Other comprehensive income	-	-	61	61
Total comprehensive income	-	-	23,814	23,814
Dividends	-	-	(4,146)	(4,146)
At 30 June 2016	20	480	31,697	32,197
	Called up share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total equity £ 000
At 1 October 2014	20	480	15,255	15,755
Profit for the year	-	-	10,142	10,142
Other comprehensive income	-	-	(43)	(43)
Total comprehensive income	-	-	10,099	10,099
Dividends	-	-	(13,325)	(13,325)
At 30 June 2015	20	480	12,029	12,529

The notes on pages 16 to 34 form an integral part of these financial statements.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016

1 General information

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

The address of its registered office is:

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

The principal place of business is:

St John's House
2-10 Queen Street
Manchester
M2 5JB
United Kingdom

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework and with the Companies Act 2006. This is the first period in which the Company has adopted FRS 101 having previously prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP"). No financial adjustments have arisen on transition from UK GAAP to FRS 101.

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

The Company claims exemption from the preparation of consolidated financial statements in accordance with Section 400 of the Companies Act 2006, as the results are included within the financial statements of its ultimate parent company, Kier Group plc, a UK incorporated company, which have been filed at Companies House and comprise the largest and smallest group to consolidate the Company's financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

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

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 contract. Where losses are foreseeable in respect of future trading committed under those contracts, provision is 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.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

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

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

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

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

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

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

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

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 four-year financial plan (to 2020) which is reviewed on a quarterly basis. The four-year plan sits at the heart of a comprehensive four-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.

Revenue recognition

Turnover comprises the fair value of the consideration received or receivable for the provision of services in the ordinary course of the Company's activities. Turnover is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises turnover when:

- the amount of revenue can be reliably measured;
- it is probable that future economic benefits will flow to the entity;
- and specific criteria have been met for each of the companies activities.

Deferred income is recognised when money has been received for work which has not yet been delivered.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

2 Accounting policies (continued)

Tax

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

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

Timing difference 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 evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversals 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 difference 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.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Furniture, fittings and equipment	3 to 8 years
Other property, plant and equipment	3 to 5 years
Motor vehicles	3 to 5 years
Land and buildings	Over the term of the lease

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

2 Accounting policies (continued)

Intangible assets

Goodwill arising on the acquisition of an entity represents the excess of the cost of acquisition over the company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is held in the currency of the acquired entity and revalued to the closing rate at each reporting period date.

Goodwill is not subject to amortisation but is tested for impairment.

Negative goodwill arising on an acquisition is recognised directly in the income statement. On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Investments

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

Cash and cash equivalents

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

Trade receivables

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

If inventory is recognised to be impaired, obsolete or slow moving, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Trade payables

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

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

2 Accounting policies (continued)

Borrowings

All borrowings are initially recorded at the amount of proceeds received, net of transaction costs. Borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the period of the relevant borrowing.

Interest expenses is recognised on the basis of the effective interest method and is included in finance costs.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Leases

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight-line basis over the period of the lease.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all risks and rewards of ownership to the lessee.

Assets held under finance leases are recognised as non-current assets of the company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term obligation.

Lease payments are apportioned between financial costs in the income statement and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Share capital

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

Defined contribution pension obligation

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. Difference between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

2 Accounting policies (continued)

Defined benefit pension obligation

The asset recognised on the balance sheet for the Company's defined benefit scheme is the present value of the defined benefit obligation at the balance sheet date as adjusted for unrecognised past service costs, 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 scheme 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.

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 financial year.

Within the statement of changes in equity

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

Areas involving key sources of estimation that may impact on the Company's earnings and financial position as follows:

Defined benefit obligation:

The Company has an obligation to pay benefits to certain employees. The cost of these benefits and the present value of the obligation depends on a number of factors, including; life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net position in the balance sheet. The assumptions reflect historical experience and current trends. See the disclosure in the defined benefit pension scheme for further details.

Provisions:

Provisions are recognised when the Company has a present obligation as a result of a past event and it is probable that the Company will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date.

4 Turnover

The analysis of the Company's turnover for the year from continuing operations is as follows:

	2016 £ 000	9 months to June 2015 £ 000
Rendering of services	380,518	374,870
Other revenue	9,425	12,643
	<u>389,943</u>	<u>387,513</u>

5 Operating profit

Arrived at after charging

	2016 £ 000	9 months to June 2015 £ 000
Depreciation expense	323	535
Operating lease expense	994	4,029

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

6 Other interest receivable and similar income

	2016 £ 000	2015 £ 000
Bank interest income	337	19
Net pension interest income	32	25
	<u>369</u>	<u>44</u>

7 Staff costs

The aggregate payroll costs were as follows:

	2016 £ 000	9 months to June 2015 £ 000
Wages and salaries	68,036	51,274
Social security costs	6,507	4,386
Pension costs, defined contribution scheme	2,650	2,002
	<u>77,193</u>	<u>57,662</u>

The average number of persons employed by the Company during the year, analysed by category was as follows:

	2016 No.	2015 No.
Direct labour	530	590
Management and administration	867	918
	<u>1,397</u>	<u>1,508</u>

8 Directors' remuneration

The directors' remuneration for the year was as follows:

	2016 £ 000
Remuneration	652
Contributions paid to money purchase schemes	30
	<u>682</u>

In respect of the highest paid director:

	2016 £ 000
Remuneration	328
Company contributions to money purchase pension schemes	13
	<u>341</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

8 Directors' remuneration (continued)

During the year the highest paid director did not exercise share options and did not participate in the defined benefit pension scheme.

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

9 Auditors' remuneration

	2016 £ 000	2015 £ 000
Auditors' remuneration	45	45

10 Income tax

Tax charged in the income statement

	2016 £ 000	2015 £ 000
Current taxation		
UK corporation tax	6,291	3,912
UK corporation tax adjustment to prior periods	158	-
	<u>6,449</u>	<u>3,912</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(12)	(1,100)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1,030	-
	<u>1,018</u>	<u>(1,100)</u>
Total deferred taxation	<u>1,018</u>	<u>(1,100)</u>
Tax expense in the income statement	<u>7,467</u>	<u>2,812</u>

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 Limited.

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2015 - higher than the standard rate of corporation tax in the UK) of 20% (2015 - 20.75%).

The differences are reconciled on the next page:

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

10 Income tax (continued)

	2016 £ 000	2015 £ 000
Profit before tax	31,220	12,954
Corporation tax at standard rate	6,244	2,688
Under provision in respect of prior years	1,188	-
Change in future tax rate	6	-
Expenses not deductible for tax purposes	29	124
Total tax charge	7,467	2,812

A change to the UK corporation tax rate was announced in the Chancellor's budget on 16 March 2016. The change announced is to reduce the main rate to 17% from 1 April 2020.

Changes to reduce the UK corporation tax rate to 19% 1 April 2017 and to 18% from 1 April 2020 had already been substantively enacted on 26 October 2015. As the change to 17% had not been substantively enacted at the balance sheet date its effects are not included in these financial statements.

The overall effect if the reduced rate had been applied to the deferred tax balance at the balance sheet date would be to reduce the deferred tax asset by an additional £3k.

The deferred tax balance as at the year end has been recognised at 18%.

Deferred tax

Deferred tax movement during the year:

	At 1 July 2015 £ 000	Recognised in income £ 000	At 30 June 2016 £ 000
Pensions	(200)	34	(166)
Accelerated capital allowances	93	140	233
Provisions	1,203	(1,191)	12
Deferred tax assets	1,096	(1,017)	79

Deferred income tax assets are recognised to the extent that the realisation of the related tax benefit through future taxable profits is probable.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

11 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Motor vehicles £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation					
At 1 July 2015	2,671	1,285	168	67	4,191
Additions	364	81	-	-	445
Disposals	-	(278)	-	(34)	(312)
At 30 June 2016	3,035	1,088	168	33	4,324
Accumulated Depreciation					
At 1 July 2015	2,664	666	33	67	3,430
Charge for the year	99	190	34	-	323
Eliminated on disposal	-	(278)	-	(34)	(312)
At 30 June 2016	2,763	578	67	33	3,441
Carrying amount					
At 30 June 2016	272	510	101	-	883
At 30 June 2015	7	619	135	-	761

12 Investments

Details of the subsidiaries as at 30 June 2016 are as follows:

Name of subsidiary	Principal activity	Country of incorporation and principal place of business	Proportion of ownership interest and voting rights held	
			2016	2015
Mouchel Pty Ltd	Non-trading	Australia	100% 100%	/ 100% / 100%

These shares were purchased on 21 January 2015 for \$100.

13 Inventories

	2016 £ 000	9 months to June 2015 £ 000
Raw materials and consumables	2,720	2,699

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

13 Inventories (continued)

The cost of inventories recognised as an expense in the year amounted to £12,302,218 (2015 - £9,339,276). This is included within cost of sales.

14 Trade and other receivables

	2016 £ 000	2015 £ 000
Trade receivables	13,615	13,907
Provision for impairment of trade receivables	(1,493)	(5,852)
Net trade receivables	12,122	8,055
Receivables from related parties	204	117
Loans to related parties	-	4,000
Accrued income	33,215	48,162
Prepayments	1,206	1,399
Other receivables	(91)	9
Total current trade and other receivables	<u>46,656</u>	<u>61,742</u>

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note.

The company's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment note.

15 Called up share capital

Allotted, called up and fully paid shares

	30 June 2016		30 June 2015	
	No.	£	No.	£
Ordinary A of £1 each	10,001	10,001	10,001	10,001
Ordinary B of £1 each	10,001	10,001	10,001	10,001
	<u>20,001</u>	<u>20,001</u>	<u>20,001</u>	<u>20,001</u>

The A and B shares have the same voting rights.

16 Loans and borrowings

	2016 £ 000
Non-current loans and borrowings	
Bank borrowings	<u>535</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

16 Loans and borrowings (continued)

	2016 £ 000
Current loans and borrowings	
Bank borrowings	<u>282</u>

Bank borrowings

Barclays asset finance loan is denominated in Sterling with a nominal interest rate of 3.31%, and with the final instalment due on 31 March 2021. The carrying amount at year end is £660,340 (2015 - £Nil).

Guarantor provided by Kier Limited

Barclays asset finance loan is denominated in Sterling with a nominal interest rate of 2.6%, and with the final instalment due on 28 February 2017. The carrying amount at year end is £155,916 (2015 - £Nil).

Guarantor provided by Kier Limited

17 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

	2016 £ 000	2015 £ 000
Within one year	182	83
In two to five years	619	3,635
In over five years	<u>112</u>	<u>535</u>
	<u>913</u>	<u>4,253</u>

During the year the active fleet operating leases were migrated over to Kier Fleet Services Limited as part of the integration into the Kier Group.

The amount of non-cancellable operating lease payments recognised as an expense during the year was £994,184 (2015 - £4,629,713)

18 Pension and other schemes

Defined contribution pension scheme

The company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the company to the scheme and amounted to £2,650,014 (2015 - £2,001,690).

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

18 Pension and other schemes (continued)

Defined benefit pension schemes

Kier Highways Prudential Platinum Scheme

Kier Highways operate a money purchase pension scheme provided by Legal and General and also participates in two 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 year representing contributions payable by the Company to the Legal & General Scheme amounted to £300k (2015: £300k).

In respect of the ex-Local Authority staff who have TUPE transferred to Kier Highways the Company participates in the Prudential Platinum 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.

Contributions payable to the pension scheme at the end of the year are £Nil (2015 - £Nil).

The expected contributions to the plan for the next reporting period are £359,000.

The scheme was most recently valued in 2013 and the 2016 triennial valuation is on-going. The actuarial value relating to the Company's share of the scheme assets and liabilities, for accounting purposes, at 30 June 2016 was equal to a net asset of £926k (2015: £792k).

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.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2016 £ 000	2015 £ 000
Fair value of scheme assets	5,033	4,128
Present value of scheme liabilities	(4,107)	(3,336)
Defined benefit pension scheme surplus	926	792

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

18 Pension and other schemes (continued)

Scheme assets

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

	2016 £ 000	2015 £ 000
Fair value at start of year	4,128	3,609
Expected return on assets	167	113
Actuarial gains	434	107
Employer contributions	351	317
Contributions by scheme members	49	39
Benefits paid	(70)	(42)
Administrative expenses	(26)	(15)
Fair value at end of year	<u>5,033</u>	<u>4,128</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2016 £ 000	2015 £ 000
Cash and cash equivalents	27	-
Equities	2,663	401
Bonds and gilts	2,116	3,511
Diversified growth fund/absolute return	210	200
Annuities	17	16
	<u>5,033</u>	<u>4,128</u>

Actual return on scheme's assets

	2016 £ 000	2015 £ 000
Actual return on scheme assets	<u>601</u>	<u>220</u>

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

18 Pension and other schemes (continued)

Scheme liabilities

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

	2016 £ 000	2015 £ 000
Present value at start of year	3,336	2,818
Current service cost	284	283
Actuarial (losses)/gains from change in financial assumptions and experience adjustments	373	150
Interest cost	135	88
Benefits paid	(70)	(42)
Member contributions	49	39
Present value at end of year	<u>4,107</u>	<u>3,336</u>
Analysed as:		
Present value of scheme liabilities arising from wholly or partly funded schemes	<u>4,107</u>	<u>3,336</u>

Principal actuarial assumptions

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

	2016 %	2015 %
Expected return on scheme assets - equity	2.80	3.40
Expected return on scheme assets - cash	1.70	2.30
Expected return on scheme assets - other	2.80	3.40
Future increase in Retail Prices Index	<u>1.70</u>	<u>2.30</u>

Post retirement mortality assumptions

	2016 Years	2015 Years
Current UK pensioners at retirement age - male	87.30	87.30
Current UK pensioners at retirement age - female	90.30	89.30
Future UK pensioners at retirement age - male	88.70	88.60
Future UK pensioners at retirement age - female	<u>91.70</u>	<u>90.80</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

18 Pension and other schemes (continued)

Amounts recognised in the income statement

	2016 £ 000	2015 £ 000
Amounts recognised in operating profit		
Current service cost	(284)	(283)
Past service cost	(26)	(15)
Recognised in arriving at operating profit	(310)	(298)
Amounts recognised in finance income		
Net interest income	32	25
Total recognised in the income statement	(278)	(273)

Amounts taken to the Statement of Comprehensive Income

	2016 £ 000	2015 £ 000
Actuarial gains and losses arising from changes in financial assumptions	(373)	(144)
Actuarial gains and losses arising from experience adjustments	-	(6)
Return on plan assets, excluding amounts included in interest income/(expense)	434	107
Amounts recognised in the Statement of Comprehensive Income	61	(43)

Sensitivity analysis

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

	2016		2015	
Adjustment to discount rate	+ 0.25%	- 0.25%	+ 0.1%	- 0.1%
	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	(200)	200	(68)	68
	2016		2015	
Adjustment to rate of inflation	+ 0.25%	- 0.25%	+ 0.1%	- 0.1%
	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	(220)	220	(77)	77
	2016		2015	
Adjustment to mortality age rating assumption	+ 1 Year	- 1 Year	+ 1 Year	- 1 Year
	£ 000	£ 000	£ 000	£ 000
Present value of total obligation	(380)	380	(122)	122

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

18 Pension and other schemes (continued)

The sensitivity analysis is based on financial assumptions reflecting market conditions as at 30 June 2016. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

19 Share-based payments

The Kier Group Saving Related Share Option Scheme ("Sharesave")

Scheme description

Participation in the Kier Group plc 2006 Sharesave scheme is offered to all employees of the Company who have been employed for a continuous period determined by the Kier Group plc board of directors. Under the Sharesave contract participating employees save a regular sum each month for three years of not less than £5 and not more than £500 per month.

Options to acquire shares in the capital of Kier Group plc were granted to eligible employees who entered into a Sharesave contract. The number of options granted were that number of shares which had an aggregate option price not exceeding the projected proceeds of the Sharesave contract including any bonus. Options granted under the Sharesave scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Kier Group.

The Kier Group Long Term Incentive Plan ("LTIP")

Scheme description

Awards made under the LTIP are normally able to vest following the third anniversary of the date of grant. Vesting maybe in full or in part (with the balance of the award lapsing) and is subject to Kier Group plc achieving specific performance targets.

20 Trade and other payables

	2016	2015
	£ 000	£ 000
Trade payables	15,280	32,445
Accrued expenses	32,722	51,696
Amounts due to related parties	2,893	3,908
Social security and other taxes	10,270	9,651
Other payables	83	570
	<u>61,248</u>	<u>98,270</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2016 (continued)

21 Dividends

A final dividend of £4,146,000 in respect of the prior year was paid in October 2015. This was declared in April 2015 at £207.28 per share.

No dividend was paid during the year for the year to June 2016 and the directors do not recommend a final dividend in respect of the year.

22 Parent and ultimate parent undertaking

At 30 June 2016 the Company's immediate parent was Mouchel Limited. The ultimate parent was Kier Group plc.

From 11 October 2016, the Company's immediate parent is Kier Limited. The ultimate parent company remains Kier Group plc.

The most senior parent entity producing publicly available financial statements is Kier Group plc. These financial statements are available upon request from Companies House, Crown Way, Cardiff and www.kier.co.uk.

The ultimate controlling party is Kier Group plc.

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

The address of Kier Group plc is:

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

Further information regarding Kier Group plc can be obtained from www.kier.co.uk

23 Non adjusting events after the financial year

On 11 October 2016 the shares in the Company were transferred from Mouchel Limited to Kier Limited, both Kier Group companies, as part of an internal re-organisation.

24 Transition to FRS 101

The transition to FRS 101 was from 1 October 2014. There have been no adjustments made to the financial statements further to the first time adoption of FRS 101.