

Registration number: 05606089

Kier Highways Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2020



Kier Highways Limited

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Kier Highways Limited

Company Information

Directors	Giuseppe Incutti Andrew Bradshaw
Company secretary	Philip Higgins
Registered office	81 Fountain Street Manchester M2 2EE
Bankers	National Westminster Bank plc 13 Stonehills Welwyn Garden City Herts AL8 6ND
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors One Embankment Place London WC2N 6RH

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2020

The directors present their strategic report for Kier Highways Limited (the "Company") for the year ended 30 June 2020.

Fair review of the business

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

The Company is a specialist highways asset maintenance and management business, carrying out maintenance contracts and projects. Principle activities include: the design of roads, bridges and intelligent transport systems (ITS), covering strategic and other nationally important roads, as well as local roads serving communities across the country.

Collaborating with clients, the Company manages assets to maximise their value, supporting the economic and social wellbeing of communities.

Revenue was in line with management expectations and comparable to the prior year.

The Company maintained its position as a sector leader. Over the year, the Company successfully mobilised a new 15-month interim highways services contract for Birmingham Highways Ltd (BHL).

In August 2020 the company bolstered its portfolio of contracts within Highways England, after being awarded the £160m Area 4 maintenance and response contract which will run for eight years. The contract commences in November 2020 and covers Kent, East Sussex and West Sussex. Kier will be responsible for maintaining 130km of motorways (M2, M20 and M23), 320km trunk road and over 1,000 structures.

Financial review

Financial performance in the year was in line with management expectations with revenue for the year to June 2020 of £385.3m, an increase of 4% compared to revenue for the year to June 2019 of £371.5m. This increase was driven by additional level of scheme related capital works being completed compared to the prior year.

Profit before taxation increased this year from £18.9m (5.1%) to £24.9m (6.4%) with gross profit margin of 13.5% (2019: 13.5%) and an operating margin of 5.9% (2019: 4.5%) for the year. Underlying performance was comparable to the prior year, with the increased Margins in 2020 attributable to a reduction in restructuring costs of £5.7m (2020:£1.5m, 2019:£7.2m)

Trade receivables (including Contract Assets) of £47.7m are lower than the prior year results (2019 : £76.3m). Trade payables (including Contract Liabilities) of £106.2m are lower than the prior year results (2019: £127.8m). Overall this results in a comparable to prior year current ratio of 1.4 (2019: 1.3).

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

	Unit	2020	2019
Gross profit margin	%	13.5	13.5
Operating profit margin	%	5.9	4.5
Current Ratio *		1.4	1.3

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

Corporate responsibility

Please see the Sustainability section in the Kier Group plc 2020 Annual Report (pages 42 - 55 inclusive), which is available at www.kier.co.uk, for details of the Group's corporate responsibility activities. As a member of the Group, the Company has participated in these activities.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2020 (continued)

Stakeholders

Kier is committed to engaging with our people, our stakeholders and the communities in which we operate, and creating a healthy and sustainable culture. The Directors of the Company have had regard for the matters set out in section 172(1) (a)-(f) of the Companies Act when performing their duty under s172. The Directors consider that they have acted in good faith in the way that would be most likely to promote the success of the Company for the benefit of its members as a whole, while also considering the broad range of stakeholders who interact with and are impacted by our business. The Company is a member of the Group; engagement with its or the Group's key stakeholders, including employees, shareholders, Government, the supply chain, lenders, the environment and the communities in which the Group or the Company operates continues to be an integral part of the Board's decision-making.

The 2020 annual report and accounts of Kier Group plc (pages 56 and 57) provides examples of how the Directors of the Company had regard to the matters set out in s172(1)(a)-(f) of the Companies Act 2006 during the year when performing their duty under section 172.

Below are examples of the Group's key stakeholders and its engagement with them. The Company has supported the Group in this engagement.

Suppliers

The Company has continued to engage with its suppliers to reduce the number of supply chain payment days. From 1 January 2020 to 30 June 2020 for example, the Company's average payment day decreased from 44 days to 38 days and the percentage of payments made to suppliers within 60 days increased from 82% to 93%, in each case compared to the six months period to 31 December 2019. Kier is committed to further improvements in our payment practices and continue to work with our customers and suppliers to achieve this. The Company has been reinstated to the Prompt Payment Code.

Employees

Kier is a people focused business and needs to attract and retain the best people and develop their skills and talents. Kier's people make the biggest impact within its business, for both clients and wider society.

During the year, the Group introduced a new set of values which underpin Kier's culture: Collaborative, Trusted and Focused.

Kier is committed to developing an inclusive workplace, creating an environment which allows its people to thrive and enhancing diversity to deliver more value for our employees, clients and customers. Kier's new values also place a greater emphasis on how managers, leaders and their teams create a more inclusive environment.

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

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

Safety, health and environment

The safety and wellbeing of Kier's employees and suppliers remain of paramount importance. The Group's Safety, Health and Environment ("SHE") Committee (the "Committee") focuses on overseeing the consolidation of the Group's safety culture and performance, with employee health and welfare being a particular area of focus during the year.

The 5 SHE Basics campaign, which was relaunched with a new visual identity on sites across the Group during the year, is fundamental to the Group's approach to safety which aims to improve the Group's overall safety performance.

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Strategic Report for the Year Ended 30 June 2020 (continued)

For further information on the Group's activities with regards to SHE matters, including the SHE Committee report at pages 99 and 100, please see the Kier Group plc 2020 Annual Report (available at www.kier.co.uk).

Kier Highways Limited holds an impressive health and safety record and the reduction in Accident Incident Rate (AIR)/ 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 at both contract level and with the company as a whole.

Reporting of Injuries, Disease and Dangerous Occurrences Regulations (RIDDOR) and AFRs at the end of the year for Kier Highways Limited were as follows:

RIDDOR AIR

- 74

All Accident AIR

- 445

RIDDOR AFR

- 0.04

All Accident AFR

- 0.21

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. Kier Group 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 Kier Group are reviewed by the RMAC on a quarterly basis. The principle risks as relevant to the Company are set out below, together with a summary of the actions taken to mitigate each risk:

Health and safety

The Company's operations are inherently complex and potentially hazardous and require the continuous 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.

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

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2020 (continued)

Potential Impacts:

- An increase in safety or environmental incidents on site;
- The cost of sickness absence not reducing;
- Kier's energy costs not reducing;
- The failure to meet clients expectations;
- The failure to meet investors expectations;
- Reduced ability to bid for and win work;
- Reputational damage; and
- Financial penalties arising from fines, legal action and project delays.

Mitigating actions:

- Continuation of the Kier Group's safety, health and environment ("SHE") behavioural change programme;
- Management continuing to undertake visible leadership tours;
- Continued focus on reduction in lost time accidents and the resulting cost of sickness absence;
- implementation of Kier's energy saving programme; and
- Continued implementation of various social impact strategies

Legislation and regulation

The Company's operations are subject to increased scrutiny, regulation and oversight due to external factors (for example, corporate failures and Brexit).

The UK construction and services sectors have recently experienced a significant increase in the level of public focus under which they operate. We expect that scrutiny to increase, particularly for major suppliers to the public sector.

These sectors are also subject to increasing regulation and reporting requirements, including new regulations relating to building standards, payments to suppliers and the gender pay gap.

Failure to manage effectively the increased scrutiny and oversight and/or comply with new regulations could result in:

- the loss of business;
- the failure to win new business;
- increased operating costs;
- the Company defending material claims; and
- reputational damage.

The key mitigations and controls in place to safeguard against these risks are as follows:

- Regular engagement with government and government agencies with respect to the Company's performance and other matters of interest;
- Close monitoring and planning of the impact of new legislation and regulations;
- Establishing strategies and policies to ensure compliance with regulatory requirements; and
- Collaborative engagement with our clients and subcontractors.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2020 (continued)

Funding

Political market or lender sentiment may affect Kier Group's available funding, thereby reducing its liquidity and restricting its ability to invest and deliver plans for future growth.

The Kier Group has a number of committed and uncommitted facilities available to meet its funding needs. Any or all of these facilities could be reduced or removed.

A reduction or removal of Kier Group's principle financing facilities could result in the company experiencing:

Potential impact:

- The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees);
- Reduced profit as a result of the inability to fund growth opportunities; and
- a slowdown of investment for future growth.

Mitigating actions:

- Focus on cash forecasting and working capital management;
- Collaborative engagement with banks, lenders and sureties; and
- Maintenance of appropriate levels of committed bank facilities
- Maintenance of appropriate bank and surety bonding facilities

Market sector performance

Delivery of the Company's strategy depends on the economic performance of the UK, in particular, and the markets and sectors in which the Company operates.

A downturn in the Company's markets and/or unsuccessful allocation of investment capital could result in:

Potential impact:

- A failure of one or more of the Company's businesses;
- A failure to meet the Company's financial targets
- Increased competition for new work; and
- A decrease in stakeholder confidence in the Company.

Mitigating actions:

- Evaluate markets, including the impact of macroeconomic factors and the associated market risk of specific events (for example, Brexit); and
- Review the Company's pipeline of future work to identify market trends and plan accordingly.

Supply chain

The Company relies on its supply chain to deliver its projects. Maintaining close and effective working relationships with members of the supply chain is therefore a priority for the Company.

Potential impact:

- Unavailability of appropriate resources, impacting on project deliver and cost;
- Use of suppliers from outside the preferred supplier list increases cost and decreases quality; and
- Poor relationships lead to lack of confidence in the Company and adverse publicity.

Mitigating actions:

- Develop long-term relationships with critical subcontractors;
- Continue to reduce subcontractor payment terms; and
- Review the supply chain to ensure alternative delivery mechanisms are available and appropriate contingencies are in place.

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Strategic Report for the Year Ended 30 June 2020 (continued)

Brexit

The UK left the EU on 31 January 2020, with a transition period currently running to 31 December 2020. Currently, the UK's long-term relationship with the EU remains unclear.

The Group has identified potential risks relating to, for example, the supply chain, the workforce and the supply and cost of materials and has set up contingency plans in respect of these risks. The Group keeps these plans under review, in the light of political developments. In particular, the Group continues to work with its supply chain to develop plans to ensure continuity of potentially critical supplies and has developed plans with respect to those members of its workforce who are nationals of EU member states and wish to continue to work in the UK.

Emerging risks

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

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

People

The Company's employees are critical to its performance. The Company understands the need to identify, retain and motivate people with the right skills, experience and behaviours and to identify tomorrow's leaders.

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

Potential impact:

- A loss of experience in the Company and client relationships;
- A lack of operational leadership, potentially leading to poor project performance;
- An erosion of the Company's employer brand
- The over reliance on key staff; and
- the failure to meet the company's financial targets.

Mitigating actions:

- Focus on skills development and retention plans for the talent pipeline;
- Create an effective, inclusive work environment; and
- Clear and effective communication with the workforce.

COVID-19

The extent of the effect of COVID-19 on the Company and its stakeholders depends on a range of factors, including its effect on the wider economy in general, measures taken by Government in response to it, including the proposed increase in UK infrastructure investment, and the effects of any re-occurrence of the pandemic.

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

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

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Strategic Report for the Year Ended 30 June 2020 (continued)

Strategy

Principal risk: The Company fails to deliver its strategy.

The delivery of the Company's strategy is of fundamental importance to its future performance.

COVID-19 impact: low.

Potential impact:

- An adverse impact on the Company's net debt and liquidity;
- Failure to secure positions on national and regional frameworks; and
- Failure to meet stakeholders' expectations may lead to a decline in confidence in the Company.

Mitigating actions:

- Adherence to latest version of the Covid -19 site operating procedures (SOP) issued by the Construction Leadership Council;
- Delivery of our Performance Excellence culture;
- Continued focus on cash management; and
- Effective communication with stakeholders.

Contract management

Effective contract management is central to the Company's business model. Failure to manage the risks associated with the Company's contracts could materially and adversely affect the Company's financial performance.

Potential impact:

- A failure to meet the Company's financial targets;
- The Company incurring losses on individual contracts;
- The Company failing to win new work;
- Reputational damage to the Company; and
- A loss of confidence from stakeholders (for example clients, subcontractors and employees)

Mitigating actions:

- Continued use of metrics to provide early warnings of under-performing contracts;
- Adhere to the Kier Group's contract risk governance framework; and
- Timely and accurate reporting of contract performance.

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.

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.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2020 (continued)

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.

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

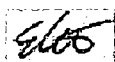
The Company's ability to tender for new business and its relationship with customers, supply chain partners, employees and other stakeholders is founded on the good reputation that it has established and how it is perceived by others. The Company's growth targets may not be achieved if its reputation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

The Safety, Health and Environmental Management System (SHEMS) 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 'subject matter experts' from across the operational workforce to ensure that all risks and appropriate control measures have been identified.

Approved by the Board on 11 December 2020 and signed on its behalf by:



.....
Giuseppe Incutti
Director

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2020

The directors of Kier Highways Limited (the "Company") present their report and the audited financial statements for the year ended 30 June 2020.

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 (Resigned 30 September 2019)

Giuseppe Incutti

Keith Jackson (Resigned 12 July 2019)

Andrew Bradshaw (appointed 3 September 2019)

Dividends

An interim dividend of £8.0m (2019: £14.0m) was paid in the year. The directors do not recommend a final dividend payment in respect of the financial year ended 30 June 2020 (2019: £Nil).

Financial instruments

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

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

- Interest rate risk, as Kier Highways Limited 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 requirement. 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.

Employee involvement

Kier's leadership team is committed to listening to what people feel about working for Kier and taking action to improve the employee experience. A culture of open communication between employees and senior management is encouraged. This year, Kier has introduced a new employee engagement survey tool, 'Your Voice', which will invite people to say how they feel about working for Kier through a series of regular online surveys. The feedback will then be acted on by the senior management team.

As part of the Group's engagement with employees, information is provided to employees through the intranet, newsletters, webinars, management calls, and formal and informal face-to-face meetings. Employee roadshows are held across the business to update and consult with employees at key times of the year and each business also engages with their employees through their own internal communication channels.

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2020 (continued)

Employees are encouraged to share in the success of Kier through participation in employee share plans, including the SAYE plan and the SIP.

Kier Highways Ltd have the following accreditations:

- We are a Disability Confident Leader
- We have 'Investors in Diversity' accreditation

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' liability insurance

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

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

Reappointment of independent auditors

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

Disclosure of information to the auditors

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.

Employment of disabled persons

The companies in the Group are equal opportunities employers and consider applications for employment from disabled persons. Facilities, equipment and training are provided to assist disabled employees and, should an employee become disabled during their employment, efforts would be made to retain them in their current role or to explore opportunities for re-deployment in the Group.

Corporate governance

The Group's parent company, Kier Group plc, as a premium listed company, is subject to the UK Corporate Governance Code (2018) (the 'Code'). Pages 72 - 121 (inclusive) of the 2020 annual report and accounts of Kier Group plc (available at www.kier.co.uk) explains how Kier Group plc applied the principles of, and complied with the provisions of, the Code during the year.

During the year, the board of directors of Kier Group plc has overseen the implementation of a revised governance structure for the Group, known as the 'Operating Framework' (the 'OF').

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2020 (continued)

The OF, adopted in January 2020 sets out the Group's revised governance structure, summarises the core business processes which apply throughout the Group and contains the Group's delegated authorities. In addition, it sets out the Group's purpose and its refreshed values - trusted, collaborative and focused. A revised Code of Conduct was adopted to support the implementation of the OF. The Company, as a member of the Group, has adopted the OF as its corporate governance code.

The Company, as a member of the Group, has not adopted the Code or any other corporate governance codes as the Board does not regard these as being relevant to a subsidiary company. The OF contains the Company's governance arrangements and copies of relevant Group governance documents can be found at: <https://www.kier.co.uk/investors/corporate-governance/group-policies/>

Approved by the Board on11 December 2020..... and signed on its behalf by:



.....
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 regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

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

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

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

The directors of the ultimate parent company are responsible for the maintenance and integrity of the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Kier Highways Limited

Independent Auditors' Report to the Members of Kier Highways Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kier Highways Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 June 2020; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require is to report to where:

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

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

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Kier Highways Limited

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

Reporting on other information (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 13, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Kier Highways Limited

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



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

Date: 14 December 2020.....

Kier Highways Limited

Income Statement for the Year Ended 30 June 2020

	Note	2020 £ 000	2019 £ 000
Revenue	4	385,342	371,514
Cost of sales		<u>(333,193)</u>	<u>(321,279)</u>
Gross profit		52,149	50,235
Administrative expenses		(24,075)	(28,567)
Operating expenses		<u>(5,307)</u>	<u>(4,838)</u>
Operating profit	5	<u>22,767</u>	<u>16,830</u>
Finance income	6	2,425	2,061
Finance costs	7	<u>(359)</u>	<u>(9)</u>
Net finance income		<u>2,066</u>	<u>2,052</u>
Profit before taxation		24,833	18,882
Income tax expense	11	<u>(1,291)</u>	<u>(3,357)</u>
Profit for the financial year		<u><u>23,542</u></u>	<u><u>15,525</u></u>

The above results were derived from continuing operations.

Kier Highways Limited

Statement of Comprehensive Income for the Year Ended 30 June 2020

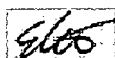
	Note	2020 £ 000	2019 £ 000
Profit for the financial year		<u>23,542</u>	<u>15,525</u>
Items that will not be reclassified subsequently to profit or loss			
Actuarial (loss)/gain on defined benefit pension scheme	13	(9,727)	823
Deferred tax on actuarial gain/(loss)	11	<u>1,832</u>	<u>(140)</u>
		<u>(7,895)</u>	<u>683</u>
Total comprehensive income for the year		<u><u>15,647</u></u>	<u><u>16,208</u></u>

The notes on pages 21 to 49 form an integral part of these financial statements.

Kier Highways Limited
(Registration number: 05606089)
Statement of Financial Position as at 30 June 2020

	Note	2020 £ 000	2019 £ 000
Non-current assets			
Property, plant and equipment	12	938	1,289
Right of use assets	21	9,478	-
Capitalised mobilisation costs		63	117
Retirement benefit assets	13	9,693	17,677
		<u>20,172</u>	<u>19,083</u>
Current assets			
Inventories	14	3,415	4,465
Trade and other receivables	15	12,398	15,970
Contract assets	4	35,319	60,319
Cash and cash equivalents	16	108,279	85,590
		<u>159,411</u>	<u>166,344</u>
Total assets		<u>179,583</u>	<u>185,427</u>
Current liabilities			
Current portion of long term lease liabilities	19	(3,972)	-
Trade and other payables	17	(100,697)	(125,297)
Loans and borrowings	18	(131)	(139)
Contract liabilities	4	(5,485)	(2,476)
		<u>(110,285)</u>	<u>(127,912)</u>
Non-current liabilities			
Long term lease liabilities	19	(5,582)	-
Loans and borrowings	18	-	(131)
Deferred tax liabilities	11	(982)	(2,590)
		<u>(6,564)</u>	<u>(2,721)</u>
Total liabilities		<u>(116,849)</u>	<u>(130,633)</u>
Net assets		<u>62,734</u>	<u>54,794</u>
Equity			
Called up share capital	23	20	20
Share premium reserve		480	480
Profit and loss account		62,234	54,294
		<u>62,734</u>	<u>54,794</u>
Total equity		<u>62,734</u>	<u>54,794</u>

The financial statements on pages 17 to 49 were approved by the Board on ¹December 2020 and signed on its behalf by:



Giuseppe Incutti
Director

Kier Highways Limited

Statement of Changes in Equity for the Year Ended 30 June 2020

	Called up share capital £ 000	Share premium £ 000	Profit and loss account £ 000	Total equity £ 000
At 30 June 2019	20	480	54,294	54,794
Change in accounting policy	-	-	(132)	(132)
At 1 July 2019 (As restated)	20	480	54,162	54,662
Profit for the year	-	-	23,542	23,542
Other Comprehensive expense	-	-	(7,895)	(7,895)
Total comprehensive income for the year	-	-	15,647	15,647
Dividends	-	-	(8,000)	(8,000)
Share based payment transactions	-	-	425	425
At 30 June 2020	20	480	62,234	62,734

	Called up share capital £ 000	Share premium reserve £ 000	Profit and loss Account £ 000	Total equity £ 000
At 1 July 2018	20	480	51,602	52,102
Profit for the financial year	-	-	15,525	15,525
Other comprehensive income	-	-	683	683
Total comprehensive income for the year	-	-	16,208	16,208
Dividends	-	-	(14,000)	(14,000)
Share based payment transactions	-	-	484	484
At 30 June 2019	20	480	54,294	54,794

The notes on pages 21 to 49 form an integral part of these financial statements.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020

1 General information

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

The address of its registered office is:

81 Fountain Street
Manchester
M2 2EE

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.

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.

Incremental costs are expensed as incurred until they are expected to be recovered from the customer, from which time further incremental 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 2020 (continued)

2 Accounting policies (continued)

Summary of disclosure exemptions

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

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

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

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

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

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

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

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

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

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

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

IFRS 16: Exemption from certain disclosures in respect of leases.

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 is in a positive net assets position as at 30 June 2020.

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 (to 2023) which is reviewed on a quarterly basis. 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, including Covid-19.

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.

Changes resulting from adoption of IFRS 16

IFRS 16 'Leases' became mandatorily effective on 1 January 2019. The Company has applied this for the first time in this accounting period which resulted in changes to the accounting policies.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

2 Accounting policies (continued)

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

The main impact of IFRS 16 has been to move the Company's longer-term operating leases onto the balance sheet, with a consequential increase in non-current assets and lease obligations. Operating lease charges in respect of these leases, previously included in administrative expenses, have been replaced by depreciation and interest costs.

IFRS 16 has introduced a new category of non-current assets for 'right-of-use assets' associated with leases. At the date of initial application of IFRS 16, the carrying value of the Company's right-of-use assets was less than the additional lease liabilities that came on to the balance sheet. The Company has recognised a debit adjustment to reserves of £132,000 (net of the associated tax effect) in respect of the transitional adjustments.

Under the Company's chosen method of adoption, comparative figures for the preceding financial period have not been restated and remain presented under the previous lease standard, IAS 17. A reconciliation between the operating lease commitments disclosed under IAS 17 at 30 June 2019 and the lease liabilities on the Company's balance sheet at 1 July 2019 under IFRS 16, is set out below.

	As originally reported 2019 £ 000
Operating lease commitments disclosed in financial statements at prior period end	970
Restatement (see below for details)	1,216
Operating lease commitments at 30 June 2019 (Restated)	<u>2,186</u>
Operating lease commitments discounted at the incremental borrowing rate	2,112
Adjustments resulting from the different treatment of extension and termination options	3
Adjustments as a result of the assessment of the reasonably certain lease terms under IFRS16 for intra-group vehicle fleet leases	4,491
Adjustments as a result of the assessment of the reasonably certain lease terms under IFRS16 for intra-group properties	<u>1,679</u>
Lease liabilities recognised at 1 July 2019	<u><u>8,285</u></u>

A detailed review of leases was undertaken as part of the adoption of IFRS 16 and as a result, the future minimum lease payments under operating leases has been restated to reflect leases not previously identified and future rental increases that were excluded from the 2019 annual report.

These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average rate applied was 3.54%.

The right-of-use assets associated with the vehicle, plant and large property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 30 June 2019.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

2 Accounting policies (continued)

For leases previously classified as finance leases the Company recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of IFRS 16 are only applied after that date. This did not result in any measurement adjustments immediately after the date of initial application.

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- Application of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- Exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- Hindsight has been used in determining the lease term where the contract contains options to extend or terminate the lease.

As a further practical expedient, the standard permits accounting for operating leases with a remaining term of less than 12 months as at 1 July 2019 as short-term leases. This practical expedient can be applied on a lease by lease basis. The Company has chosen to apply this practical expedient to its sundry plant and equipment leases but not its property or vehicle lease portfolios. The Company believes this approach will help comparability in the financial periods immediately following adoption of IFRS 16.

The Company has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 'Determining whether an Arrangement contains a Lease.'

The company transitioned to IFRS 16 using the retrospective approach and has chosen to apply the practical expedient not to reassess existing contracts that are or contain leases under the definition of a lease per IFRS 16, unless those leases were previously identified under IAS 17.

Therefore, the IFRS 16 definition of a lease has not been applied to contracts not containing a lease under IAS 17.

In addition, the company decided to apply recognition exemptions to leases with a term not exceeding 12 months and leases where the underlying assets are of low value.

The IFRS 16 definition of a lease has been applied to contracts entered into or modified on or after the date of initial application.

No adjustments are required on transition to IFRS 16 for leases where the company acts as a lessor, except for a sub-lease. A reassessment of the classification of a sub-lease is required under IFRS 16.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

2 Accounting policies (continued)

Impact on Statement of Financial Position as at 1 July 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

	IFRS 16 adjustments £ 000
Right of use assets	8,289
Trade and other receivables	(136)
Lease liabilities	<u>(8,285)</u>
Decrease in retained earnings as at 1 July 2019	<u>(132)</u>

The Company did not need to make any adjustments to the accounting for assets held as lessor under operating leases as a result of the adoption of IFRS 16.

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.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

2 Accounting policies (continued)

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
Motor vehicles and plant	3 to 5 years
Land and buildings	Over the term of the lease
Pre-contract costs	Over the length of the contract

Pre-contract and contract mobilisation costs

Pre-contract costs to obtain a contract that would have been incurred irrespective of whether the contract was obtained are recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer irrespective of whether the contract is obtained.

Mobilisation costs incurred in respect of a specific contract that has been won or an anticipated contract that is expected to be won (e.g. when the Company has secured preferred bidder status), are carried forward in the balance sheet as capitalised mobilisation costs if: the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and the costs are expected to be recovered (i.e. the contract is expected to be sufficiently profitable to cover the mobilisation costs).

The vast majority of contracts incurring significant mobilisation costs are contracts that exceed 12 months in duration. The Company's policy is therefore to show its capitalised mobilisation costs as a non-current asset, amortised over the expected contract duration.

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.

A trade receivable is recognised when the Company has the right to consideration that is unconditional (subject only to the passage of time before payment is due). Trade receivables do not carry interest and are stated at their initial cost reduced by appropriate allowances for expected credit costs.

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.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

2 Accounting policies (continued)

Contract assets and liabilities

When the Company transfers goods or services to a customer before the customer pays consideration or before payment is due, the amount of revenue associated with the transfer of goods or services is accrued and presented as a contract asset in the balance sheet (excluding any amounts presented as a receivable). A contract asset represents the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer.

If a customer pays consideration, or the Company has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Company transfers a good or service to the customer, the amount is presented as a contract liability on the balance sheet. A contract liability represents the Company's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

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.

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

For the 2019 comparative reporting period, leases in terms of which the Company assumed substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to those assets. Other leases were operating leases, and the rental charges were charged to the income statement on a straight-line basis over the life of each lease.

The Company has applied the following accounting policy in respect of leases from 1 July 2019.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

2 Accounting policies (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Most Kier Group companies do not have any recent independent third-party financing to use as a starting point for the incremental borrowing rate. Therefore, the Company uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, lease term, country, currency and security.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Any restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Company has elected to use the following recognition exemptions, as permitted by the standard:

- Leases of low-value items - The Company has defined low value items as assets that have a value when new of less than c£5,000. Low value items comprise IT equipment and small items of plant.
- Short-term leases - Leases with a lease term of less than 12 months at inception.

For leases in the above categories, a lease liability or right-of-use asset is not recognised. Instead, the Company recognises the related lease payments as an expense on a straight-line basis over the lease term.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Leased properties that meet the definition of investment properties are presented within 'investment properties' rather than 'right-of-use assets' on the balance sheet.

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 2020 (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 the settlements and curtailments - where the item that gave rise to the settlement or curtailment is recognised within the operating profit.

Within finance income/expense on pension scheme

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 other comprehensive income

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

Revenue and profit recognition

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts. It also includes the Company's proportion of work carried out under jointly controlled operations.

Where revenue that has been recognised is subsequently determined not to be recoverable due to a dispute with the customer, these amounts are accounted for as a reduction in revenue. Where non-recovery is as a result of inability of a customer to meet its obligations, these amounts are charged to administrative expenses as a credit loss.

The general principles for revenue and profit recognition across the Company are as follows:

- Provision is made for any unavoidable future net losses arising from contract obligations, as soon as they become apparent;
- Additional consideration for contract modifications (variations) is only included in revenue (or the forecast contract out-turn) if the scope of the modification has been approved by the customer. If the scope of the modification has been approved but the parties have not yet determined the corresponding change in the contract price, an estimate of the change to the transaction price is made and included in calculating revenue to the extent that any increase in price is highly probable not to reverse;
- Variable consideration amounts (gain-share amounts, KPI bonuses, milestone bonuses, compensation event claims, etc.) are included in revenue (or forecasts to completion) only to the extent that it is highly probable that a significant reversal of the amount in cumulative revenue recognised will not occur;

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

2 Accounting policies (continued)

- Refund liabilities (liquidated damages, pain-share amounts, KPI penalties, etc.) are accounted for as a reduction in revenue (or in forecasting contract out-turns) as soon as it is expected that the Company will be required to refund some or all of the consideration it has received from the customer;
- Claims against third-parties (such as insurance recoveries and claims for cost reimbursements) outside of normal supplier price adjustments are recognised only when the realisation of income is virtually certain. The associated income is accounted for as reduction in costs rather than revenue; and
- Contract mobilisation is not considered to be a separate performance obligation in most situations, as the customer receives little or no benefit from mobilisation activities. Any consideration received from the customer in relation to the mobilisation phase of a contract is deferred and recognised as additional revenue relating to the performance obligations in the contract that benefit the customer.

If the timing of payments agreed with the customer provides the Company or the customer with a significant benefit of financing the transfer of goods or services, the amount of consideration is adjusted for the effects of the time value of money. The Company does not make an adjustment for the time value of money in the following circumstances:

- When the Company expects, at contract inception, that the period between the entity transferring a good or service and the customer paying for it will be one year or less; or
- Where the timing of the payments is for commercial rather than financing reasons, e.g. construction contract retentions.

Revenue and profit from services rendered is recognised over time as the service is performed.

Progress on capital works and infrastructure renewal projects is measured using costs incurred as a percentage of the estimated full costs of completing the performance obligation.

Where the contract includes bundled services, the transaction price is allocated to each performance obligation identified in the contract based on the relative stand-alone selling prices of each of the performance obligations. Revenue is then recognised independently when each of the performance obligations is satisfied.

Any variable consideration (e.g. performance bonus) attributable to a single performance obligation is allocated entirely to that performance obligation. Where variable consideration is attributable to the entire contract and is not specific to part of the contract, the consideration is allocated based on the stand-alone selling prices of each of the performance obligations within the contract.

Service contracts are reviewed monthly to assess their future operational performance and profitability.

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.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (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.

Revenue Recognition:

The estimation techniques used for revenue and profit recognition require forecasts to be made of the outcome of long term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programme and changes in cost.

The company considers that any individual contract judgement/estimate would not have a material effect on the financial statements.

4 Revenue

The Company derives revenue from capital infrastructure projects as well as maintenance of infrastructure assets across the highways sector.

Capital projects can range from larger schemes over a period of several years (such as Windy Harbour), to small schemes completed over a matter of days. Revenue is recognised over time as the construction services are rendered to the customer. Each capital project is typically a single performance obligation.

The company also provides maintenance services for the UK road infrastructure through routine, preventive maintenance as well as reactive repairs. These services are generally delivered under framework contracts between five to eight years, however individual performance obligations under the framework are normally determined on an annual, monthly or ad hoc basis. Revenue is recognised over time as the maintenance services are rendered by the customer. Where multiple services are supplied under a single contract they are treated as separate performance obligations and revenue is recognised as each performance obligation is satisfied.

Services are normally invoiced monthly in arrears under normal commercial credit terms.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

4 Revenue (continued)

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

	2020 £ 000	2019 £ 000
Rendering of services	377,114	364,202
Other revenue	8,228	7,312
	<u>385,342</u>	<u>371,514</u>

Contract assets arise where goods or services are transferred to the customer before the customer pays consideration, or before payment is due. Contract Assets (loans and advances) represent our unconditional right to consideration for the goods or services supplied and performance obligations delivered. Contract liabilities (deposits from customers) relate to consideration received when we still have an obligation to deliver goods or services for that consideration.

Current assets and liabilities

	2020 £ 000	2019 £ 000
Contract assets	35,319	60,319
Contract liabilities	(5,485)	(2,476)
Net unbilled contract assets	<u>29,834</u>	<u>57,843</u>

5 Operating profit

Arrived at after charging/(crediting)

	2020 £ 000	2019 £ 000
Depreciation expense	352	592
Depreciation on right of use assets - plant and equipment	1,303	-
Depreciation on right of use assets - land and buildings	2,334	-
Depreciation on mobilisation cost	50	40
Operating lease expense - property	-	548
Restructuring Cost	<u>1,523</u>	<u>7,190</u>

The Company has incurred restructuring costs in the year totalling £1.5m (2019: £7.2m) in respect of employee exit costs associated with the Groups restructuring programme.

6 Finance income

	2020 £ 000	2019 £ 000
Interest income on bank deposits	2,002	1,643
Other finance income	423	418
	<u>2,425</u>	<u>2,061</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

7 Finance costs

	2020 £ 000	2019 £ 000
Interest on bank overdrafts and borrowings	9	9
Interest expense on leases	350	-
	<u>359</u>	<u>9</u>

8 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	90,146	96,965
Social security costs	7,292	9,763
Other pension costs	2,905	3,905
	<u>100,343</u>	<u>110,633</u>

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

	2020 No.	2019 No.
Direct labour	452	490
Management and administration	1,362	1,707
	<u>1,814</u>	<u>2,197</u>

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2020 £ 000	2019 £ 000
Remuneration	897	1,241
Contributions paid to money purchase schemes	5	-
	<u>902</u>	<u>1,241</u>

In respect of the highest paid director:

	2020 £ 000	2019 £ 000
Remuneration	268	685
	<u>268</u>	<u>685</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

9 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. (2019:£nil)

10 Auditors' remuneration

	2020 £ 000	2019 £ 000
Auditors' remuneration	83	45

11 Income tax expense

Tax charged in the income statement

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	764	3,326
UK corporation tax adjustment to prior periods	304	11
Total current taxation	1,068	3,337
Deferred taxation		
Arising from origination and reversal of temporary differences	226	403
Arising from changes in tax rates and laws	284	(49)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(287)	(334)
Total deferred taxation	223	20
Tax expense in the income statement	1,291	3,357

Deferred tax

Deferred tax movement during the year:

	At 1 July 2019 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 30 June 2020 £ 000
Pension benefit obligations	(3,004)	(669)	1,832	(1,842)
Accelerated tax depreciation	346	203	-	549
Provisions	-	-	-	-
Research and development expenditure credit	68	243	-	311
Net tax liabilities	(2,590)	(223)	1,832	(982)

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 2020 (continued)

11 Income tax expense (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2019 - lower than the standard rate of corporation tax in the UK) of 19.00% (2019 - 19.00%).

The differences are reconciled as follows:

	2020 £ 000	2019 £ 000
Profit before taxation	24,833	18,882
Corporation tax at standard rate	4,718	3,587
Adjustments from prior years	17	(322)
Change in future tax rate	284	(49)
Expenses not deductible for tax purposes	111	141
Effects of group relief/ other Relief	(3,839)	-
Total tax charge	1,291	3,357

The deferred tax balance as at the year-end has been recognised at 19% (2019: 17%) which is the enacted corporation tax rate that will be effective from 1 April 2020.

12 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Motor vehicles and plant £ 000	Total £ 000
Cost or valuation				
At 1 July 2019	1,274	2,743	201	4,218
Disposals	(316)	-	(33)	(349)
At 30 June 2020	958	2,743	168	3,869
Accumulated Depreciation				
At 1 July 2019	663	2,106	160	2,929
Charge for the year	102	236	14	352
Eliminated on disposal	(317)	-	(33)	(350)
At 30 June 2020	448	2,342	141	2,931
Carrying amount				
At 30 June 2020	510	401	27	938
At 30 June 2019	611	637	41	1,289

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets

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 £2,905,000 (2019 - £3,905,000).

Defined benefit pension schemes

Kier Highways Prudential Platinum Scheme

Kier Highways Limited operate 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 ex-Local Authority staff who have TUPE transferred to Kier Highways Limited 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 Limited 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 paid to the pension scheme during the year were £236,000 (2019 - £371,000).

The expected contributions to the plan for the next reporting period are £211,000.

The schemes most recent triennial actuarial valuation was as at 31 December 2018. The actuarial value relating to the Company's share of the scheme assets and liabilities, for accounting purposes, at 30 June 2020 was equal to a net asset of £1,387,000 (2019: £1,230,000).

The IAS 19 accounting valuation of the Kier Highways Prudential Pension Scheme at 30 June 2020 indicated that the schemes assets exceeded its liabilities. The company has recognised the surplus as a retirement benefit pension asset on its balance sheet under IAS 19 and IFRIC 14, as the Company has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surplus on winding up of the scheme.

In respect of the admitted body status in one LGPS scheme Kier Highways Limited 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.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2020 £ 000	2019 £ 000
Fair value of scheme assets	7,817	6,840
Present value of scheme liabilities	(6,430)	(5,610)
Defined benefit pension scheme surplus	<u>1,387</u>	<u>1,230</u>

Scheme assets

Changes in the fair value of scheme assets are as shown on the following page:

	2020 £ 000	2019 £ 000
Fair value at start of year	6,840	6,102
Interest income	159	174
Return on plan assets, excluding amounts included in interest income/(expense)	703	338
Employer Contributions	236	371
Contributions by Scheme Participants	-	42
Benefits paid	(91)	(157)
Administration expenses	(30)	(30)
Fair value at end of year	<u>7,817</u>	<u>6,840</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2020 £ 000	2019 £ 000
Equities	1,154	1,274
Corporate Bonds	1,378	536
Cash	1,343	1,574
Multi-asset	473	588
Liability driven investment	3,077	2,234
Absolute Return	350	564
Land	42	70
	<u>7,817</u>	<u>6,840</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

Actual return on scheme's assets

	2020 £ 000	2019 £ 000
Actual return on scheme assets	<u>862</u>	<u>738</u>

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

Scheme liabilities

Changes in the present value of scheme liabilities are as shown on the following page:

	2020 £ 000	2019 £ 000
Present value at start of period	5,610	4,703
Past service cost	177	259
Actuarial losses from change in financial assumptions	559	735
Actuarial losses/(gains) due to changes in demographic assumptions	179	(106)
Actuarial gains arising from experience adjustments	(134)	-
Net benefits paid out	(91)	(157)
Interest Cost	130	134
Member Contributions	<u>-</u>	<u>42</u>
Present value at end of year	<u>6,430</u>	<u>5,610</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:

	2020 %	2019 %
Discount Rate	1.60	2.30
Pension increase in deferment	1.95	2.00
Increase in Salaries	2.85	3.10
Future increase in Consumer Price Index	<u>1.95</u>	<u>2.00</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

Post retirement mortality assumptions

	2020 Years	2019 Years
Current UK pensioners at retirement age - male	86.80	86.00
Current UK pensioners at retirement age - female	89.30	88.00
Future UK pensioners at retirement age - male	88.30	87.50
Future UK pensioners at retirement age - female	<u>90.80</u>	<u>89.60</u>

The above mortality assumptions are based on a retirement age of 60

Amounts recognised in the income statement

	2020 £ 000	2019 £ 000
Amounts recognised in operating profit		
Current service cost	(177)	(259)
Administrative Expenses	<u>(30)</u>	<u>(30)</u>
Recognised in arriving at operating profit	<u>(207)</u>	<u>(289)</u>
Amounts recognised in finance income		
Net interest income	<u>29</u>	<u>40</u>
Total recognised in the income statement	<u>(178)</u>	<u>(249)</u>

Amounts taken to the Statement of Comprehensive Income

	2020 £ 000	2019 £ 000
Actuarial gains and losses arising from changes in demographic assumptions	(179)	106
Actuarial gains and losses arising from changes in financial assumptions	(559)	(735)
Actuarial gains and losses arising from experience adjustments	134	-
Return on plan assets, excluding amounts included in interest income/(expense)	<u>703</u>	<u>338</u>
Amounts recognised in the Statement of Comprehensive Income	<u>99</u>	<u>(291)</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

Sensitivity analysis

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

	2020		2019	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	£ 000	£ 000	£ 000	£ 000
Adjustment to discount rate				
Decrease/(increase) in present value of total obligation	320	(320)	240	(240)
	<u>320</u>	<u>(320)</u>	<u>240</u>	<u>(240)</u>
	2020		2019	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	£ 000	£ 000	£ 000	£ 000
Adjustment to rate of inflation				
(Increase)/decrease in present value of total obligation	(310)	310	(240)	240
	<u>(310)</u>	<u>310</u>	<u>(240)</u>	<u>240</u>
	2020		2019	
	+ 1 Year	- 1 Year	+ 1 Year	- 1 Year
	£ 000	£ 000	£ 000	£ 000
Members assumed to be one year older/younger in age				
decrease/(Increase) in present value of total obligation	290	(290)	200	(200)
	<u>290</u>	<u>(290)</u>	<u>200</u>	<u>(200)</u>

The sensitivity analysis is based on financial assumptions reflecting market conditions as at 30 June 2020. the methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous periods.

KBS Final Salary Scheme

The Kier Business Services pension scheme is a funded defined benefit scheme. For this defined benefit scheme the future liabilities for benefits are provided for by the accumulation of assets held externally to the Company in separate, trustee-administered funds. The cost of this scheme is determined in accordance with the advice of independent, professionally qualified actuaries on the basis of formal actuarial valuations using the projected unit credit method. In line with normal business practice these valuations are undertaken on a triennial basis.

The scheme is closed to new entrants except for employees transferring to the Company under TUPE, where the Company is required to provide benefits which are broadly comparable to those provided under the Local Government Pension Scheme or another defined scheme provided by the transferring employer. The scheme was closed to future accrual of benefit on 31 December 2010 for all non-public sector members with these members being offered entry to Kier Business Services Limited's defined contribution schemes from 1 January 2011.

Given the membership of the schemes, under the projected unit credit method the current service cost would be expected to increase as the members of the scheme approach retirement.

Contributions paid to the pension scheme during the year are £1,292,000 (2019 - £1,256,000).

The expected contributions to the plan for the next reporting period are £1,295,000.

The schemes most recent triennial actuarial valuation was as at 31 March 2019. At the valuation date the pension schemes assets were less than the technical provisions and therefore the scheme was in deficit.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

The IAS 19 accounting valuation of the Kier Business Services Pension Scheme as at 30 June 2020 indicated that the schemes assets exceeded its liabilities. The Company has recognised the surplus as a retirement benefit pension asset on the balance sheet under IAS 19 and IFRIC 14, as the Company has determined that it has the right to benefit from any surplus, through either reduced contributions or a refund of the surplus on winding up of the scheme.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2020 £ 000	2019 £ 000
Fair value of scheme assets	141,538	133,805
Present value of scheme liabilities	<u>(133,232)</u>	<u>(117,358)</u>
Defined benefit pension scheme surplus	<u>8,306</u>	<u>16,447</u>

Scheme assets

	2020 £ 000	2019 £ 000
Fair value at start of period	133,805	124,421
Interest income	3,028	3,412
Return on plan assets, excluding amounts included in interest income/(expense)	9,529	10,909
Contributions by Scheme Participants	1,292	1,256
Benefits paid	<u>(6,115)</u>	<u>(6,193)</u>
Fair value at end of year	<u>141,539</u>	<u>133,805</u>

Analysis of assets

The major categories of scheme assets are as follows:

	2020 £ 000	2019 £ 000
Equities	16,641	19,770
Corporate Bonds	30,320	18,049
Cash	21,944	26,748
Multi-asset	6,739	8,946
Absolute Return	6,504	12,542
Liability driven investment	<u>59,391</u>	<u>47,750</u>
	<u>141,539</u>	<u>133,805</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

Actual return on scheme's assets

	2020 £ 000	2019 £ 000
Actual return on scheme assets	12,557	9,384

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

Scheme liabilities

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

	2020 £ 000	2019 £ 000
Present value at start of period	117,358	111,552
Past service cost	-	(830)
Actuarial losses from change in financial assumptions	12,821	11,559
Actuarial gains due to changes in experience assumptions	1,023	563
Actuarial losses arising from demographic adjustments	5,511	(2,327)
Net benefits paid out	(6,115)	(6,193)
Interest Costs	2,634	3,034
Present value at end of year	133,232	117,358

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:

	2020 %	2019 %
Discount Rate	1.60	2.30
Increase in Salaries	2.85	3.10
Pension increase in deferment	1.95	2.00
Future increase in Retail Prices Index	2.85	3.10
Increase in Consumer Price Index (CPI)	1.95	2.00
Increase in Retail Prices Index (RPI)	2.85	3.10

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

Post retirement mortality assumptions

	2020 Years	2019 Years
Current UK pensioners at retirement age - male	87.00	86.10
Current UK pensioners at retirement age - female	89.00	87.90
Future UK pensioners at retirement age - male	88.10	87.50
Future UK pensioners at retirement age - female	<u>89.90</u>	<u>89.50</u>

The above mortality assumptions are based on a retirement age of 60

Amounts recognised in the income statement

	2020 £ 000	2019 £ 000
Amounts recognised in operating profit		
Past service cost	-	830
Amounts recognised in finance income or costs		
Net interest	<u>394</u>	<u>378</u>
Total recognised in the income statement	<u>394</u>	<u>1,208</u>

Amounts taken to the Statement of Comprehensive Income

	2020 £ 000	2019 £ 000
Return on plan assets, excluding amounts included in interest income/(expense)	9,529	10,909
Actuarial gains and losses arising from changes in financial assumptions	(12,821)	(11,559)
Actuarial gains and losses arising from changes in demographic assumptions	(5,511)	2,327
Actuarial gains and losses arising from experience adjustments	<u>(1,023)</u>	<u>(563)</u>
Amounts recognised in the Statement of Comprehensive Income	<u>(9,826)</u>	<u>1,114</u>

Sensitivity analysis

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

	2020		2019	
	+ 0.25% £ 000	- 0.25% £ 000	+ 0.25% £ 000	- 0.25% £ 000
Adjustment to discount rate				
decrease/(increase) in present value of total obligation	<u>5,900</u>	<u>(6,300)</u>	<u>5,100</u>	<u>(5,500)</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

13 Retirement benefit assets (continued)

	2020		2019	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
	£ 000	£ 000	£ 000	£ 000
Adjustment to rate of inflation				
(Increase)/decrease in present value of total obligation	(4,600)	4,600	(5,400)	5,000
	2020		2019	
	+ 1 Year	- 1 Year	+ 1 Year	- 1 Year
	£ 000	£ 000	£ 000	£ 000
Members assumed to be one year older/younger in age				
decrease/(increase) in present value of total obligation	5,200	(5,300)	3,900	(4,000)

14 Inventories

	2020	2019
	£ 000	£ 000
Raw materials and consumables	3,415	4,465

The cost of inventories recognised as an expense in the year amounted to £5,059,134 (2019 - £15,332,309). This is included within cost of sales.

15 Trade and other receivables

	2020	2019
	£ 000	£ 000
Trade receivables	10,505	11,543
Provision for impairment of trade receivables	(2,132)	(1,444)
Net trade receivables	8,373	10,099
Receivables from related parties	1,465	1,930
Accrued income	639	481
Prepayments	1,921	3,460
	12,398	15,970

The company's exposure to credit and market risks, including maturity analysis, relating to trade and other receivables is disclosed in the financial risk review note.

16 Cash and cash equivalents

	2020	2019
	£ 000	£ 000
Cash at bank	108,279	85,590

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

17 Trade and other payables

	2020	2019
	£ 000	£ 000
Current		
Trade payables	8,073	9,535
Accrued expenses	52,347	50,710
Amounts due to related parties	15,773	42,887
Social security and other taxes	21,805	19,032
Other payables	2,699	3,133
Total current trade and other payables	100,697	125,297

18 Loans and borrowings

	2020	2019
	£ 000	£ 000
Non-current loans and borrowings		
Bank borrowings	-	131
	2020	2019
	£ 000	£ 000
Current loans and borrowings		
Bank borrowings	131	139

Bank borrowings

Barclays asset finance loan is denominated in with a nominal interest rate of 3.31%, and with the final instalment due on 31 March 2021. The carrying amount at 30 June 2020 was £131,424 (2019 - £270,267).

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

19 Leases

Leases included in liabilities

	2020 £ 000	2019 £ 000
Current	3,972	-
Non-current	5,582	-

Lease liabilities maturity analysis

Future minimum lease payments as at 30 June 2020 are as follows¹:

	2020 £ 000	2019 £ 000
Less than one year	4,255	-
One to two years	2,676	-
Two to three years	1,662	-
Three to four years	993	-
Four to five years	488	-
Over five years	61	-
Total gross payments	10,135	-
Impact of finance expenses	(581)	-
Carrying amount of liability	9,554	-

¹ The Company initially applied IFRS 16 at 1 July 2019, using the modified retrospective approach. Under this approach, comparative information is not restated and the cumulative effect of initially applying IFRS 16 is recognised in retained earnings at the date of initial application. Thus, the comparative future minimum lease payments presented are based on IAS 17 while the current year are based on IFRS 16.

Total cash outflows related to leases

	2020 £ 000	2019 £ 000
Payments	3,905	-
Interest	(350)	-
Total cash outflow	3,555	-

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

20 Obligations under leases and hire purchase contracts

Operating leases

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

	2020 £ 000	2019 £ 000
Within one year	-	428
In two to five years	-	543
	<u>-</u>	<u>971</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £Nil (2019 - £548,072)

21 Right of use assets

	Land and buildings £ 000	Motor vehicles £ 000	Total £ 000
Carrying amount			
At 1 July 2019	3,931	4,359	8,290
Additions	241	4,783	5,024
Disposals	(199)	-	(199)
Depreciation charge for the year	<u>(1,303)</u>	<u>(2,334)</u>	<u>(3,637)</u>
At 30 June 2020	<u>2,670</u>	<u>6,808</u>	<u>9,478</u>

22 Share-based payments

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

Scheme description

Participation in the Kier Group plc 2006 Sharescheme and/or Kier Group plc 2016 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.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

22 Share-based payments (continued)

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.

23 Called up share capital

The A and B shares have the same voting rights.

Allotted, called up and fully paid shares

	No.	2020 £ 000	No.	2019 £ 000
Ordinary A of £1 each	10,001	10	10,001	10
Ordinary B of £1 each	10,001	10	10,001	10
	<u>20,002</u>	<u>20</u>	<u>20,002</u>	<u>20</u>

24 Dividends

An interim dividend of £8,000,000 (2019:£14.0m) was paid in the year.

25 Subsidiaries

The Company's wholly owned subsidiary as at 30 June 2020 was Kier Infrastructure Pty Ltd, a company registered in Western Australia, with its registered office at Level 28 Allendale Square, 77 St George Terrace, Perth, Western Australia 6000.

26 Parent and ultimate parent undertaking

The Company's immediate parent is Kier Limited, incorporated in England and Wales.

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.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2020 (continued)

26 Parent and ultimate parent undertaking (continued)

Relationship between entity and parents

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

The address of Kier Group plc is:

81 Fountain Street

Manchester

M2 2EE

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