

Registration number: 05606089

Kier Highways Limited
Annual Report and Financial Statements
for the Year Ended 30 June 2018

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Kier Highways Limited

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Kier Highways Limited

Company Information

Directors

David Wright
Giuseppe Incutti
Keith Jackson

Company secretary

Bethan Melges

Registered office

Tempsford Hall
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Bedfordshire
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Bankers

National Westminster Bank plc
13 Stonehills
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AL8 6ND

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embarkment Place
London
WC2N 6RH

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018

The directors present their strategic report for Kier Highways Limited (the "Company") for the year ended 30 June 2018.

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 expectations, with the following contract extensions being secured post-year end with Highways England:

- two three-year extensions to 2021 and 2022 respectively worth over £250m per annum, secured on Areas 3 and 9
- six month extension secured on Areas 6 and 8

Post year end, the Company was also appointed to Highways England's £8bn six-year Regional Delivery Partnership framework for Band B projects exceeding £100m in the north region covering the north west, north east, Yorkshire and Humberside, with a total value of around £2bn to be shared across the region.

In local authority roads, the Company was appointed by Shropshire Council as their new highways maintenance provider, with the contract being worth c£210m over 10 years.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

Financial review

Financial performance in the year was in line with management expectations, with revenue for the year to June 2018 of £473.1m, an increase of 10% compared to revenue for the year to June 2017 of £428.4m. This improvement was due to an increased level of scheme related capital works being completed compared to the prior year.

Profit before taxation increased this year from £28.9m (6.7%) to £34.7m (7.3%), with a gross profit margin of 13.6% (2017: 13.1%) and an operating profit margin of 6.8% (2017: 6.4%) for the year.

Underlying operating profit margin is in line with 2017, with the reported improvement from 6.4% to 6.8% resulting from a £1.4m non-operating pension revaluation on the Kier Business Services final salary pension scheme.

Trade receivables of £75.5m are comparable to prior year results (2017: £74.5m). Trade payables have increased by 4%, to £127.7m (2017: £122.3m). Overall this results in a static current ratio of 1.4 (2017: 1.4).

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

	Unit	2018	2017
Gross profit margin	%	13.7	13.5
Operating profit margin	%	6.8	6.4
Current Ratio*		1.4	1.4

** 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.*

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

Employee engagement

Our people are responsible for the delivery of essential services helping members of the public travel safely on thousands of journeys every single day. Their overall levels of engagement are therefore a key factor in our ability to deliver a great service to our clients and our customers. We measure satisfaction through the Kier Group annual employee survey. The 2018 survey showed an improvement in employee engagement with a score of 62% which represented an improvement on the 2017 result of 54%. Feedback from the survey also identified some areas which management can continue to build upon in order to drive further improvements.

Corporate responsibility

The Kier Group attaches great importance to its corporate responsibility, as evidenced by the corporate responsibility section in the Kier Group plc 2018 Annual Report and in its Corporate Responsibility Report for 2018, which is available at www.kier.co.uk. As a member of the Kier Group, the Company abides by the same principles.

Principal risks and uncertainties

The Board is responsible for the Company's system of risk management and internal controls and for ensuring that significant risks are identified and appropriately managed. The Board has delegated the review of the effectiveness of the Company's risk management processes to the Kier Group Risk Management and Audit Committee ('RMAC'), including the systems established to identify, assess, manage and monitor risk. The risks faced by the Company are reviewed by the RMAC on a quarterly basis. The principle risks as relevant to the Company are set out below, together with a summary of the actions taken to mitigate each risk:

Safety, health and sustainability

The Company's activities are inherently complex and potentially hazardous and require the continuous management of safety, health and sustainability risks.

Failure to do so could result in any of the following:

- 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 client's expectations;
- the failure to meet investors' expectations;
- reduced ability to bid for and win new work;
- reputational damage; and
- financial penalties arising from fines, legal action and project delays.

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

- Continuation of the Group's safety, health and environmental ("SHE") behavioural change programme;
- Management continuing to undertake visible leadership tours;
- Continued focus on the 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.

Regulation

The Company's operations are subject to increased scrutiny, regulation and oversight due to external factors (for example, corporate failures, the Grenfell Tower fire 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.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

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.

Funding

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

Political, market or lender sentiment may affect the 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 in or removal of the Kier Group's principal financing facilities could result in the Company experiencing:

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

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

- Focus on cash forecasting and working capital management to generate positive cash flow;
- Maintenance of appropriate levels of committed bank facilities;
- Maintenance of appropriate bank and surety bonding facilities;
- Collaborative engagement with banks, lenders and sureties; and
- Continue to identify appropriate alternative funding structures.

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Strategic Report for the Year Ended 30 June 2018 (continued)

Market and 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:

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

The Company will continue to evaluate market performance, including the impact of macro-economic factors and the associated market risk of specific events (for example, Brexit) in order to safeguard against these risks.

Operating model

The Company needs to maintain and evolve its operating model so as to build and sustain the long-term confidence of its key stakeholders, deliver sector-leading customer experience and maximise the opportunities for growth. The Company needs to maintain an efficient operating model.

Failure to do so could result in:

- business failure;
- the failure to deliver growth and profitability;
- the failure to remain competitive;
- the failure to reduce costs; and
- the failure to meet the expectations of stakeholders (for example, clients, subcontractors and employees).

In order to safeguard against these risks the Company will continue to monitor the long-term prospects, opportunities and risks associated with its key markets and adapt the operating model accordingly.

Contract management

Effective contract management is central to the Company's business model. Each contract requires careful and effective management, according to a number of factors, including type of work, location, length of contract and form of contract.

Failure to manage contracts effectively could result in:

- a failure to meet the Company's financial targets;
- the Company incurring losses;
- the Company failing to win new work;
- reputational damage to the Company; and
- a loss of confidence of stakeholders (for example, clients, subcontractors and employees).

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

- Continued use of metrics to provide early warnings of under-performing contracts;
- Completion of the review of the Kier Group's contract risk governance framework; and
- The Kier Group's continued focus on supply-chain procurement.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

Pre-contract governance

Effective pre-contract governance is essential to ensure that the Company understands the risks associated with projects and has in place appropriate plans to mitigate those risks.

A failure in the Company's pre-contract controls could result in:

- poorly performing contracts;
- the Company incurring losses;
- the failure to meet a client's expectations on cost and quality;
- claims and litigation against the Company;
- a failure to meet the Company's financial targets; and
- the Company failing to win new work.

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

- Continue to assess contract risk through the Kier Group's standing orders, commercial standards and screening assessment matrix;
- Continue to focus on selective tendering; and
- Share lessons learned across the Kier Group.

People

The Company recognises the importance of a clear people strategy to the delivery of its overall strategy and the need to identify, retain and motivate people with the right skills, experience and behaviours. In particular, the Company recognises the benefits of a diverse workforce which is representative of society.

Failure to deliver the Company's people strategy could result in:

- the failure to deliver a specific business need or contract requirement;
- reputational damage, to both the corporate and the employee brand;
- the failure to develop future leaders;
- the over-reliance on key staff; and
- a failure to meet the Company's financial targets.

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

- Continue to progress internal targets on gender diversity at all levels;
- Continue to focus on skills development and retention plans for critical skills and the talent pipeline; and
- Embed visible leadership of the balanced business agenda and engagement actions so as to create a fully inclusive work environment.

Innovation

The Company operates in an increasingly dynamic and changing environment. To exploit the opportunities that this presents, the Company seeks to embrace innovation and capitalise on technological advancements.

Failure to do so may result in:

- a failure to maintain the Company's market position;
- the failure to reduce cost or increase the speed of delivery for clients;
- the failure to provide visibility of performance; and
- the failure to attract and retain staff.

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

- Ensure that employees have access to online innovation and idea-sharing platforms;
- Further develop the Company's partnerships with clients and third party organisations to progress its innovation agenda; and
- Monitor, and respond to, prospective market disruptors.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

Cyber-security

Cyber-attack and data loss is a risk to all organisations and individuals. The Company is at risk because it handles sensitive information of a personal, confidential and commercial nature, its business operations depend upon IT systems and it has an increasing profile with clients, suppliers and other stakeholders.

Failure to manage the cyber-security risk may result in:

- business interruptions and operational delay;
- the loss of data, resulting in confidentiality breaches, financial loss and reputational damage; and
- fines from regulatory authorities.

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

- Continue to strengthen the Kier Group's dedicated cyber-security team;
- Consider outsourcing elements of the Kier Group's IT systems where it is appropriate to do so; and
- Continue to test information security alongside recognised UK and International standards (for example, ISO27001).

Brexit

The UK will be leaving the EU in March 2019. The Kier Group has established a senior level 'Brexit Taskforce' to consider the potential effect of Brexit on the Group, which will be influenced by the outcome of the negotiations between the UK Government and the European Commission.

The Group has identified potential risks relating to the supply chain, the workforce and the supply and cost of materials, in particular. The Group is developing contingency plans against a range of scenarios, including one in which the UK leaves the EU without an agreement and, potentially, without a transition period. The Group is monitoring developments and will amend and update these plans accordingly.

Principal risks and uncertainties (continued)

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

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

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

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

Contract delivery

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

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

People

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

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

Tender Pricing

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

To mitigate this risk, the Company continually strives to improve its service proposition to distinguish itself from a qualitative perspective whilst ensuring that it offers innovative market leading value for money solutions to its clients. In support of this, there is a business improvements database whereby employees can submit suggestions and a knowledge bank used for best practice sharing. The Company also operates a scheme whereby employees are rewarded for proposing ideas and solutions which benefit the business. Furthermore, it leverages its established client relationships to influence the approach adopted by clients on further tenders.

Safety

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

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

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

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Strategic Report for the Year Ended 30 June 2018 (continued)

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

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

Reputation

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

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

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

Health and safety

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

Kier 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 both at a contract level and within the company as a whole.

Health and safety (continued)

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

RIDDOR AIR
- 58 (Threshold: 150)

All Accident AIR
- 322 (Threshold: 280)

RIDDOR AFR
- 0.03 (Threshold: 0.15)

All Accident AFR
- 0.17 (Threshold: 1.6)

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.

Kier Highways Limited

Strategic Report for the Year Ended 30 June 2018 (continued)

Approved by the Board on 17th December 2018 and signed on its behalf by:

Giuseppe Incutti
Director



Kier Highways Limited

Directors' Report for the Year Ended 30 June 2018

The directors of Kier Highways Limited (the "Company") present their report and the audited financial statements for the year ended 30 June 2018.

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

Giuseppe Incutti

Keith Jackson

Financial instruments

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

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

- Foreign exchange risk, as the Australian subsidiary is not currently trading; and
- Interest rate risk, as Kier Highways 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 requirements. Kier Group level borrowing facilities have been recently renegotiated and extended. The Kier Group has strong, long-term relationships with the providers of its borrowing and has an in-house team which monitors headroom and advises on borrowing terms and conditions.

Employees

The Group recognises the benefits of a diverse workforce which is representative of society. Kier's Shaping Your World campaign and Balanced Business Network ('BBN'), an internal Kier forum, are both key contributors to attracting a more diverse range of people. The BBN plays a key role in making Kier a place that anyone can work in, by promoting an inclusive environment where people can feel confident about bringing their whole selves to work and driving action to deliver real change. The diversity of the workforce remains a priority for Kier and stretching targets have been set to improve this.

Employment of disabled persons

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

Further information on the Group's people and communities policy is set out in the Corporate Responsibility Report for 2018 which is available at www.kier.co.uk.

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2018 (continued)

Employee involvement

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

The Kier Group provides information to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. The Group operates the Kier Group plc 2018 Sharesave Scheme for eligible employees and a Share Incentive Plan for all employees, which includes a share-matching element. The Group also makes available a dealing service to enable employees to buy and sell its shares.

Safety, health and environment

The safety of those on the Group's sites is of paramount importance to Kier as are the Group's obligations with respect to the health and wellbeing of its employees and the environment.

The Kier Group Safety, Health and Environment Committee, continues to drive improvements in the management of safety, health and environment ('SHE') risk throughout the business.

The role of the Committee includes:

- ☐ Reviewing the Group's strategy with respect to SHE matters and challenging management to implement it;
- ☐ Encouraging management's commitment and accountability with respect to managing the Group's SHE risks;
- ☐ Reviewing and, as necessary, approving material Group-wide SHE initiatives, policies and procedures;
- ☐ Receiving reports on any major SHE incidents and challenging management to communicate the lessons learned from those incidents across the Group; and
- ☐ Monitoring and challenging management on the Group's performance against SHE targets.

For further information on Kier Group's activities with regards to SHE matters, please see the Kier Group plc 2018 Annual Report (available at www.kier.co.uk).

Social and community issues

The Kier Group attaches great importance to its corporate responsibility, as evidenced by the Resources and Relationships section in the Kier Group plc 2017 Annual Report and its full Corporate Responsibility Report for 2018, which is available on www.kier.co.uk. As a member of the Kier Group, the Company abides by the same principles.

Future developments

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

Going concern

Given the current economic circumstances and the guidance by the Financial Reporting Council, additional disclosures are presented in note 2 to the financial statements. These disclosures detail the basis on which the Directors have continued to adopt the going concern basis in preparing these financial statements.

Kier Highways Limited

Directors' Report for the Year Ended 30 June 2018 (continued)

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 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.

Approved by the Board on **17.12.18** 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 keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

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

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 2018 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 2018, the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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.

Kier Highways Limited

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

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 2018 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 15, 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)

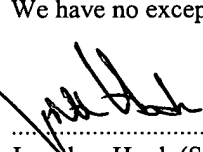
Other required reporting

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.



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

Date: 20/12/18

Kier Highways Limited

Income Statement for the Year Ended 30 June 2018

	Note	2018 £ 000	2017 £ 000
Revenue	4	473,149	428,432
Cost of sales		<u>(408,004)</u>	<u>(370,394)</u>
Gross profit		65,145	58,038
Administrative expenses		(22,809)	(22,673)
Operating expenses		<u>(10,063)</u>	<u>(7,757)</u>
Operating profit	5	<u>32,273</u>	<u>27,608</u>
Finance income	6	2,418	1,353
Finance costs	7	<u>(16)</u>	<u>(22)</u>
Net finance income		<u>2,402</u>	<u>1,331</u>
Profit before taxation		34,675	28,939
Income tax expense	11	<u>(6,770)</u>	<u>(6,101)</u>
Profit for the financial year		<u>27,905</u>	<u>22,838</u>

The above results were derived from continuing operations.

Kier Highways Limited

Statement of Comprehensive Income for the Year Ended 30 June 2018

	2018 £ 000	2017 £ 000
Profit for the financial year	27,905	22,838
Items that will not be reclassified subsequently to profit or loss		
Actuarial gain on defined benefit pension schemes	8,164	514
Deferred tax on actuarial gain	(1,388)	(102)
	6,776	412
Total other comprehensive income for the year	6,776	412
Total comprehensive income for the year	34,681	23,250

The notes on pages 23 to 45 form an integral part of these financial statements.


Kier Highways Limited

(Registration number: 05606089)

Statement of Financial Position as at 30 June 2018

	Note	2018 £ 000	2017 £ 000
Assets			
Non-current assets			
Property, plant and equipment	12	4,390	2,363
Retirement benefit assets	20	12,937	4,615
		<u>17,327</u>	<u>6,978</u>
Current assets			
Inventories	14	3,821	3,334
Trade and other receivables	15	75,518	74,999
Cash and cash equivalents	16	96,099	96,380
		<u>175,438</u>	<u>174,713</u>
Total assets		<u>192,765</u>	<u>181,691</u>
Current liabilities			
Trade and other payables	22	(127,689)	(122,308)
Loans and borrowings	18	(134)	(130)
Deferred income		(28)	(3,318)
		<u>(127,851)</u>	<u>(125,756)</u>
Non-current liabilities			
Loans and borrowings	18	(270)	(405)
Deferred tax liabilities	11	(2,016)	(83)
		<u>(2,286)</u>	<u>(488)</u>
Total liabilities		<u>(130,137)</u>	<u>(126,244)</u>
Net assets		<u>62,628</u>	<u>55,447</u>
Equity			
Called up share capital	17	20	20
Share premium account		480	480
Retained earnings		62,128	54,947
Total equity		<u>62,628</u>	<u>55,447</u>

The financial statements on pages 19 to 45 were approved by the Board on 17/12/2018 and signed on its behalf by:



 Giuseppe Incutti
 Director

The notes on pages 23 to 45 form an integral part of these financial statements.

Kier Highways Limited

Statement of Changes in Equity for the Year Ended 30 June 2018

	Called up share capital £ 000	Share premium reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 July 2017	20	480	54,947	55,447
Profit for the financial year	-	-	27,905	27,905
Other comprehensive income	-	-	6,776	6,776
Total comprehensive income for the year	-	-	34,681	34,681
Dividends	-	-	(27,500)	(27,500)
At 30 June 2018	20	480	62,128	62,628

	Called up share capital £ 000	Share premium reserve £ 000	Retained earnings £ 000	Total equity £ 000
At 1 July 2016	20	480	31,697	32,197
Profit for the financial year	-	-	22,838	22,838
Other comprehensive income	-	-	412	412
Total comprehensive income for the year	-	-	23,250	23,250
At 30 June 2017	20	480	54,947	55,447

The notes on pages 23 to 45 form an integral part of these financial statements.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018

1 General information

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

The address of its registered office is:

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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.

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (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;

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

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; and

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.

Going concern

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

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

The Company has maintained detailed 12 month rolling forecast profit and loss accounts, balance sheets and cash flows throughout the financial period and continues to do so. These forecasts take into account reasonably possible changes and uncertainties. The 12 month rolling forecasts form part of a four-year financial plan (to 2021) which is reviewed on a quarterly basis. The four-year plan sits at the heart of a comprehensive four-year Business Plan which has been reviewed and approved by the shareholders and has been cascaded throughout the Management of the Company.

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

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

Revenue recognition

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

The Company recognises turnover when:

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

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

2 Accounting policies (continued)

Tax

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

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

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

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

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

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

Property, plant and equipment

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

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

Depreciation

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

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

2 Accounting policies (continued)

Intangible assets

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

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

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

Pre-contract costs

Pre-contract costs comprise of costs directly attributable to tendering for and securing a contract such as feasibility studies, bid or tender costs and pre-contract work on design and must be capable of being identified separately and measured reliably. Costs incurred up to the asset recognition date are written off as an expense. Costs incurred after asset recognition date are recognised as an asset, provided that it is expected that the contract will generate cash flows with a present value no less than the amount recognised as an asset.

Investments

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

Cash and cash equivalents

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

Trade receivables

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

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

Inventories

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

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

2 Accounting policies (continued)

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

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

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

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

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

Share capital

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

Defined contribution pension obligation

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (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 changes in equity

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

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

Defined benefit obligation:

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

Provisions:

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

4 Revenue

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

	2018	2017
	£ 000	£ 000
Rendering of services	465,830	420,240
Other revenue	7,319	8,192
	<u>473,149</u>	<u>428,432</u>

5 Operating profit

Arrived at after charging

	2018	2017
	£ 000	£ 000
Depreciation expense	1,627	413
Operating lease expense	<u>549</u>	<u>747</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

6 Finance income

	2018	2017
	£ 000	£ 000
Bank interest income	2,278	1,344
Net pension interest income	140	9
	<u>2,418</u>	<u>1,353</u>

7 Finance costs

	2018	2017
	£ 000	£ 000
Interest on bank overdrafts and borrowings	16	22

8 Staff costs

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

	2018	2017
	£ 000	£ 000
Wages and salaries	98,215	70,375
Social security costs	6,710	6,648
Other pension costs	2,610	1,813
	<u>107,535</u>	<u>78,836</u>

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

	2018	2017
	No.	No.
Direct labour	502	510
Management and administration	1,515	1,078
	<u>2,017</u>	<u>1,588</u>

9 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018	2017
	£ 000	£ 000
Remuneration	1,482	1,127

In respect of the highest paid director:

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

9 Directors' remuneration (continued)

	2018 £ 000	2017 £ 000
Remuneration	699	633
Benefits under long-term incentive schemes (excluding shares)	3	4
Company contributions to money purchase pension schemes	5	6
	<u>707</u>	<u>643</u>
Defined benefit accrued pension entitlement at the end of the year	7	8
Defined benefit accrued lump sum at the end of the year	<u>9</u>	<u>10</u>

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

10 Auditors' remuneration

	2018 £ 000	2017 £ 000
Auditors' remuneration	<u>45</u>	<u>45</u>

11 Income tax expense

Tax charged in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	6,224	5,807
UK corporation tax adjustment to prior periods	<u>1</u>	<u>341</u>
	<u>6,225</u>	<u>6,148</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	383	(48)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>162</u>	<u>1</u>
Total deferred taxation	<u>545</u>	<u>(47)</u>
Tax expense in the income statement	<u>6,770</u>	<u>6,101</u>

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

11 Income tax expense (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2017 - higher than the standard rate of corporation tax in the UK) of 19.00% (2017 - 19.75%).

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

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

The differences are reconciled as follows:

	2018 £ 000	2017 £ 000
Profit before taxation	34,675	28,939
Corporation tax at standard rate	6,588	5,716
Under provision in respect of prior years	163	341
Change in future tax rate	(23)	(3)
Expenses not deductible for tax purposes	42	47
Total tax charge	6,770	6,101

The deferred tax balance as at the year-end has been recognised at 17% (2017: 17%) which is the enacted corporation tax rate that will be effective from 1 April 2020.

Deferred tax

Deferred tax movement during the year:

	At 1 July 2017	Recognised in income	Recognised in other comprehensive income	Transfer from Kier Business Services Limited	At 30 June 2018
	£ 000	£ 000	£ 000	£ 000	£ 000
Pensions	(394)	(643)	(1,388)		(2,425)
Accelerated capital allowances	233	73			306
Provisions	78	25			103
Deferred tax assets	(83)	(545)	(1,388)	-	(2,016)

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 2018 (continued)

12 Property, plant and equipment

	Land and buildings £ 000	Furniture, fittings and equipment £ 000	Motor vehicles and plant £ 000	Pre-contract costs £ 000	Total £ 000
Cost or valuation					
At 1 July 2017	3,035	892	201	1,893	6,021
Disposals	(2,306)	-	-	-	(2,306)
Additions	593	1,535	-	1,531	3,659
At 30 June 2018	1,322	2,427	201	3,424	7,374
Accumulated Depreciation					
At 1 July 2017	2,856	573	134	100	3,663
Charge for the year	52	1,074	13	488	1,627
Eliminated on disposal	(2,306)	-	-	-	(2,306)
At 30 June 2018	602	1,647	147	588	2,984
Carrying amount					
At 30 June 2018	720	780	54	2,836	4,390
At 30 June 2017	179	324	67	1,793	2,363

13 Investments

Details of the subsidiaries as at 30 June 2018 are shown on the next page:

Name of subsidiary	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2018	2017
Kier Infrastructure Pty Ltd	Non-trading	181 Adelaide Terrace, East Perth, WA6004 Australia	100%	100%

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

14 Inventories

	2018	2017
	£ 000	£ 000
Raw materials and consumables	3,821	3,334

The cost of inventories recognised as an expense in the year amounted to £15,741,169 (2017 - £6,090,245). This is included within cost of sales.

15 Trade and other receivables

	2018	2017
	£ 000	£ 000
Trade receivables	8,725	4,264
Provision for impairment of trade receivables	(981)	(1,530)
Net trade receivables	7,744	2,734
Receivables from related parties	1,991	9,206
Accrued income	62,258	62,087
Prepayments	3,523	959
Other receivables	2	13
	75,518	74,999

16 Cash and cash equivalents

	2018	2017
	£ 000	£ 000
Cash at bank	96,099	96,380

17 Called up share capital

Allotted, called up and fully paid shares

	No.	2018	No.	2017
		£ 000		£ 000
Ordinary A of £1 each	10,001	10	10,001	10
Ordinary B of £1 each	10,001	10	10,001	10
	20,002	20	20,002	20

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

17 Called up share capital (continued)

The A and B shares have the same voting rights.

18 Loans and borrowings

	2018 £ 000	2017 £ 000
Non-current loans and borrowings		
Bank borrowings	270	405
	2018	2017
	£ 000	£ 000
Current loans and borrowings		
Bank borrowings	134	130

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 end is £404,612 (2017 - £534,589).

Guarantor provided by Kier Limited

19 Obligations under leases and hire purchase contracts

Operating leases

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

	2018 £ 000	2017 £ 000
Within one year	549	747
In two to five years	720	1,269
	1,269	2,016

The amount of non-cancellable operating lease payments recognised as an expense during the year was £548,605 (2017 - £746,572)

20 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 £2,609,351 (2017 - £1,812,567).

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

Defined benefit pension schemes

20 Retirement benefit assets (continued)

Kier Highways Prudential Platinum Scheme

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

In respect of the Legal & General scheme the pension cost charge for the year representing contributions payable by the Company to the Legal & General Scheme amounted to £378k (2017: £273k).

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

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

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

Contributions payable to the pension scheme at the end of the year are £Nil (2017 - £Nil).

The expected contributions to the plan for the next reporting period are £Nil.

The scheme was most recently valued in 2017. The actuarial value relating to the Company's share of the scheme assets and liabilities, for accounting purposes, at 30 June 2017 was equal to a net asset of £879k (2016: £926k).

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

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2018 £ 000	2017 £ 000
Fair value of scheme assets	6,102	5,687
Present value of scheme liabilities	(4,703)	(4,808)
Defined benefit pension scheme surplus	1,399	879

Scheme assets

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

20 Retirement benefit assets (continued)

	2018 £ 000	2017 £ 000
Fair value at start of year	5,687	5,033
Expected return on assets	150	144
Actuarial (losses)/gains	(74)	308
Employer contributions	378	273
Contributions by scheme members	43	42
Administrative expenses	(52)	(95)
Contributions by scheme participants	(30)	(18)
Fair value at end of year	6,102	5,687

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Equities and diversified growth funds	754	-
Equities	5,348	579
Bonds and gilts	-	4,853
Diversified growth fund/absolute return	-	238
Annuities	-	17
	6,102	5,687

Actual return on scheme's assets

	2018 £ 000	2017 £ 000
Actual return on scheme assets	415	654

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:

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

20 Retirement benefit assets (continued)

	2018 £ 000	2017 £ 000
Present value at start of year	4,808	4,107
Current service cost	304	276
Actuarial (losses)/gains from change in financial assumptions and experience adjustments	(526)	360
Interest cost	126	118
Benefits paid	(52)	(95)
Member contributions	43	42
Present value at end of year	4,703	4,808
Analysed as:		
Present value of scheme liabilities arising from wholly or partly funded schemes	4,703	4,808

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:

	2018 %	2017 %
Expected return on scheme assets – equity	3.00	3.20
Expected return on scheme assets – cash	1.90	2.10
Expected return on scheme assets - other	3.00	3.20
Future increase in Retail Prices Index	1.90	2.10

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	86.60	87.00
Current UK pensioners at retirement age - female	88.60	89.10
Future UK pensioners at retirement age - male	88.10	88.80
Future UK pensioners at retirement age - female	90.20	91.10

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

20 Pension and other schemes (continued)

	2018 £ 000	2017 £ 000
Amounts recognised in operating profit		
Current service cost	(304)	(276)
Past service cost	(30)	(18)
Recognised in arriving at operating profit	(334)	(294)
Amounts recognised in finance income		
Net interest income	24	26
Total recognised in the income statement	(310)	(268)

Amounts taken to the Statement of Comprehensive Income

	2018 £ 000	2017 £ 000
Actuarial gains and losses arising from changes in financial assumptions	526	(360)
Return on plan assets, excluding amounts included in interest income/(expense)	(74)	308
Amounts recognised in the Statement of Comprehensive Income	452	(52)

Sensitivity analysis

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

	2018		2017	
	+ 0.25% £ 000	- 0.25% £ 000	+ 0.25% £ 000	- 0.25% £ 000
Adjustment to discount rate				
Present value of total obligation	(220)	220	(100)	100
	2018		2017	
	+ 0.25% £ 000	- 0.25% £ 000	+ 0.25% £ 000	- 0.25% £ 000
Adjustment to rate of inflation				
Present value of total obligation	215	(215)	100	(100)
	2018		2017	
	+ 1 Year £ 000	- 1 Year £ 000	+ 1 Year £ 000	- 1 Year £ 000
Adjustment to mortality age rating assumption				
Present value of total obligation	(180)	180	(180)	180

The sensitivity analysis is based on financial assumptions reflecting market conditions as at 30 June 2017. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

20 Retirement benefit assets (continued)

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 payable to the pension scheme at the end of the year are £Nil (2017 - £Nil).

The expected contributions to the plan for the next reporting period are £Nil.

Risks

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

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

	2018 £ 000	2017 £ 000
Fair value of scheme assets	124,421	125,385
Present value of scheme liabilities	(111,552)	(121,649)
Defined benefit pension scheme surplus	12,869	3,736

Scheme assets

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

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

20 Retirement benefit assets (continued)

	2018 £ 000	2017 £ 000
Fair value at start of year	125,385	-
Interest income	3,296	346
Return on plan assets, excluding amounts included in interest income/(expense)	(2,483)	1,479
Employer contributions	1,422	145
Benefits paid	(3,081)	-
Benefits paid	-	3,073
Transfer of scheme assets	-	120,366
Administration expenses	(118)	(24)
Fair value at end of year	124,421	125,385

Analysis of assets

The major categories of scheme assets are as follows:

	2018 £ 000	2017 £ 000
Equities and diversified growth funds	114,043	109,483
Bonds, gilts and cash	5,465	11,326
Property	4,913	4,576
	124,421	125,385

Actual return on scheme's assets

	2018 £ 000	2017 £ 000
Actual return on scheme assets	(964)	1,947

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:

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

20 Retirement benefit assets (continued)

	2018 £ 000	2017 £ 000
Present value at start of year	121,649	-
Current service cost	-	5
Actuarial (losses)/gains from change in financial assumptions and experience adjustments	(10,196)	913
Transfer of scheme liabilities	-	120,367
Interest cost	3,180	364
Actuarial (losses)/gains from change in financial assumptions	(3,081)	-
Present value at end of year	111,552	121,649
Analysed as:		
Present value of scheme liabilities arising from wholly or partly funded schemes	111,552	121,649

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:

	2018 %	2017 %
Expected return on scheme assets - equity	3.00	3.20
Expected return on scheme assets - cash	1.90	2.10
Expected return on scheme assets - other	3.00	3.20
Future increase in Retail Prices Index	1.90	2.10

Post retirement mortality assumptions

	2018 Years	2017 Years
Current UK pensioners at retirement age - male	86.50	87.00
Current UK pensioners at retirement age - female	88.30	89.10
Future UK pensioners at retirement age - male	88.00	88.80
Future UK pensioners at retirement age - female	90.00	91.10

Amounts recognised in the income statement

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

20 Retirement benefit assets (continued)

	2018 £ 000	2017 £ 000
Amounts recognised in operating profit		
Current service cost	-	(5)
Past service cost	(118)	(24)
Recognised in arriving at operating profit	(118)	(29)
Amounts recognised in finance income or costs		
Net interest	116	17
Total recognised in the income statement	(2)	(12)

Amounts taken to the Statement of Comprehensive Income

	2018 £ 000	2017 £ 000
Actuarial gains and losses arising from changes in financial assumptions	(2,483)	(913)
Return on plan assets, excluding amounts included in interest income/(expense)	10,195	1,479
Amounts recognised in the Statement of Comprehensive Income	7,712	566

Sensitivity analysis

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

	2018			2017		
Adjustment to discount rate	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000
Present value of total obligation	(5,100)	-	5,400	(100)	-	100
	2018			2017		
Adjustment to rate of inflation	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000	+ 0.25% £ 000	0.0% £ 000	- 0.25% £ 000
Present value of total obligation	5,300	-	(5,000)	100	-	(100)
	2018			2017		
Adjustment to mortality age rating assumption	+ 1 Year £ 000	None £ 000	- 1 Year £ 000	+ 1 Year £ 000	None £ 000	- 1 Year £ 000
Present value of total obligation	(3,400)	-	3,400	(180)	-	180

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

21 Share-based payments

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

Scheme description

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

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

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

Scheme description

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

22 Trade and other payables

	2018	2017
Current	£ 000	£ 000
Trade payables	34,263	7,880
Accrued expenses	48,597	77,236
Amounts due to related parties	25,964	21,214
Social security and other taxes	18,734	15,948
Other payables	131	30
Total current trade and other payables	127,689	122,308

23 Dividends

A final dividend of £27,500,000 was paid during the year for the year to June 2018. This was declared in June 2018 at £1,374.86 per share.

Kier Highways Limited

Notes to the Financial Statements for the Year Ended 30 June 2018 (continued)

24 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.

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

The address of Kier Group plc is:
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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