Registration number: 00873179

Kier Integrated Services Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2020

Kier Integrated Services Limited

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Kier Integrated Services Limited

Company Information

Directors	Andrew Bradshaw
	Giuseppe Incutti
	Barry McNicholas
	Nigel Quelch
	Lee Woodall
Company secretary	Philip Higgins
Registered office	81 Fountain Street Manchester M2 2EE
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

The directors present their strategic report for Kier Integrated Services 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 principal activity of the Company is to work with its long-term clients in the public and regulated sectors to design and deliver a wide range of essential front-line infrastructure services.

Revenue from continuing operations for the year was £514.9m (2019 - £556.1m), a decrease of 7.4%. This was a result of the Kier Group's strategic decisions to exit the waste services market and to gradually transfer the Company's highways business to a fellow Group company, Kier Highways Limited, through bidding for new contracts and contract renewals in that entity.

The Company made a loss before tax of £1.6m (2019 - loss of £36.0m). The significant decrease in the loss is largely due to significant one-off items in the preceding year, which by their nature, have not been repeated in the current year. As part of the Company's strategy to exit the waste services market, the Company secured the termination of one of its loss-making environmental waste contracts in the preceding year which impacted the profit by £23.2m in 2019. Also during the preceding year, the Company impaired the value of its investment in its waste services subsidiary, Kier Recycling CIC, by £6.1m.

Despite the loss in the year the company has returned to a net assets position following a capital injection during the year from its immediate parent company, Kier Integrated Services Group Limited, by way of newly issued share capital of £35m. The Company therefore moved to a net assets position of £3.7m from a net liabilities position of £31.2m in 2019.

The Company has been cash-generative in the year, increasing its cash balance by £41.2m from £156.6m to £197.8m.

Throughout COVID-19, the Company continued to build and maintain the UK's highways networks and provide key services to the water, gas, power, telecoms and rail sectors.

Public Sector Services

The Company continues to operate and provide services in the local authority roads maintenance market. However, as part of the Kier Group strategic review carried out in the preceding year, it was confirmed that the Company would exit the waste services market. During the year the Company secured the termination of its largest remaining loss-making environmental waste contract, having terminated another of its major contracts in the previous year. The Company will continue to reduce its exposure to this market as contracts conclude.

In local authority roads, there are ongoing client funding pressures and a variety of delivery and procurement solutions are under discussion with clients. It is anticipated that the potential devolution of funding and decision-making both locally and regionally, alongside the establishment of Regional Transport Bodies, Mayoral Authorities and increased collaboration between authorities, will see changes to the local authority highways marketplace over the forthcoming years. This may lead to greater local accountability for local and regional road networks.

Regulated Services

The Regulated Services business delivers long-term contracts providing a range of services, including repair, maintenance and emergency response services in the water, energy, gas and telecommunications sectors in the United Kingdom, as well as design and construction services for the United Kingdom's waterways network and the rail sector. Customers are largely regulated by Government agencies including OFWAT for water and OFGEM for gas and power.

Regulated Services (continued)

Trading in the Regulated Services business in the last three months of the year was adversely affected by the effects of COVID-19. However, the Company's response to COVID-19 was critical in ensuring continuity of supply of essential services to the public.

During the year, the Regulated Services business primarily focused on margin enhancement and, therefore, exited some lower-return contracts, resulting in profit being less than in the preceding year.

In the water sector, the Company has had a successful AMP7 regulatory bidding cycle, securing £700m of work. This includes re-securing all existing clients as well as new wins, having been awarded the Yorkshire Water contract for capital works and a place on the framework for lots 1 and 2 of the £2.6bn Thames Water AMP7 Capital Programmes Framework (Runway 2). The business pipeline for high-quality, long-term infrastructure works is strong.

The energy sector is anticipated to see c£16bn of spend in the current regulatory cycle which runs from 2013 to 2023. In addition, climate change challenges will drive investments. Re-procurement for new RIIO-ED2 infrastructure services frameworks will commence in 2021 for contract commencement in April 2023. These will present growth opportunities for additional revenues. Two major investments on the horizon are the move to distributed generation and equipping the country to cope with the switch from internal combustion to electric vehicles. Both will drive significant infrastructure spending. In gas, trials are currently planned for domestic hydrogen production, storage and distribution, which will present new opportunities.

The telecoms market totals c£40bn with major changes underway including the replacement of copper with fibre (with some 90% of the UK still relying on copper to some extent for their broadband), and the introduction of 5G, a technology that relies on super-local relaying of data. These represent new opportunities on top of the Company's core business.

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

	Unit	2020	2019
Adjusted EBITA margin	%	0.6	-0.5
Order book	£bn	1.2	0.8
Safety	AIR	106	105

Adjusted EBITA is calculated as adjusted operating (loss)/profit (2020: £2,478,000 profit; 2019: £3,236,000 loss) plus an add-back for the amortisation charged (2020: £618,000; 2019: £655,000). Adjusted EBITA margin is adjusted EBITA as a proportion of revenue.

The Company uses the accident incident rate (AIR) to measure safety. Our aim is to achieve year-on-year improvement in AIR and remain below the Health and Safety Executive benchmark for the UK. There has been a very small increase this year however the figure is less than half the rate experienced in 2017 and 2016 and remains well below the Health and Safety Executive benchmark.

Outlook

The overall outlook for the Company is positive, despite current COVID-19 and Brexit uncertainty within the UK economy. The Company specialises in infrastructure markets that are key focus areas for the UK Government and market regulators, where investment in maintenance is likely to continue for some time. The Company delivers essential every-day services that are required all year round, regardless of the prevailing political agenda. This means the Company can maintain operational stability and pursue growth.

The regulated utilities market provides opportunities to grow in the run-up to each new regulatory period. The directors remain confident that the Company is well positioned to take advantage of the next round of water and power regulatory review periods.

Since the Kier Group acquired Mouchel in 2015, the Group has been operating its highways services contracts through two separate companies; local authority highways contracts in Kier Integrated Services Limited and the legacy Mouchel strategic highways contracts in Kier Highways Limited. In order to consolidate its highways operations into a single company, the Group has made the strategic decision to bid all future local authority and strategic highways contracts through Kier Highways Limited. Kier Integrated Services Limited will continue to operate its existing contracts (including any extensions) until they expire. However, any re-bids will be made by the Company's fellow subsidiary Kier Highways Limited and therefore, in the longer term, the Company's highways operations will, in effect, be transferred to the Company's fellow subsidiary.

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.

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 Group 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 Group's average payment days remained consistent at 38 days and the percentage of payments made to suppliers within 60 days increased from 81% to 84%, in each case compared to the six months period to 31 December 2019. Kier is committed to further improvements in our payment practices and continue to work with our customers and suppliers to achieve this. The actions taken by the Group have also resulted in 92% of registered entities have 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.

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).

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 Kier Group has delegated the review of the effectiveness of the Group'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 Group are reviewed by the RMAC on a quarterly basis.

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

On behalf of the Kier Group, 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. The principal risks as relevant to the Company are set out below, together with a summary of the actions taken to mitigate each risk.

Principle risks and uncertainties (continued)

Health and safety
Principal risk: failure to maintain a safe and sustainable environment and prevent a major incident.

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

COVID-19 impact: high.

During COVID-19, the Company has worked closely with its people, clients and suppliers to ensure that its sites and offices are able to continue to operate safely and in accordance with Government guidelines.

Potential impact:
• An increase in safety or environmental incidents on site;
• The failure to meet clients' expectations, adversely affecting the ability to bid for and win new work; and
• Financial penalties arising from fines, legal action and project delays.

Mitigating actions:
• Continued focus on the five basics of SHE risk management;
• Implementing the Kier Group's new sustainability framework, 'Building for a Sustainable World'; and
• Setting a tone from the top through activities such as senior management visible leadership tours.

Legislation and regulation
Principal risk: failure to manage effectively changes in legislation and regulation.

The sectors in which the Company operates are subject to increasing scrutiny from stakeholders, oversight from regulators and requirements introduced by new legislation or regulation.

COVID-19 impact: no material impact.

Potential impact:
• Penalties for failing to adhere to legislation or regulation;
• Increased operating costs of compliance; and
• The loss of business and resultant reputational damage.

Mitigating actions:
• Regular engagement with Government and Government agencies with respect to the Company's performance;
• Monitoring of, and planning for, the impact of new legislation and regulations; and
• Collaborative engagement with external stakeholders.

Principle risks and uncertainties (continued)

Funding

Principal risk: failure to maintain adequate funding or liquidity.

Reduced availability of financing options resulting in an inability to maintain adequate funding or financial liquidity and an inability to execute the Company's strategy effectively.

COVID-19 impact: medium.

The Group has worked with its clients and supply chain to maintain liquidity during COVID-19. The Kier Group has agreed waivers and revised financial covenants with its lenders and worked with other stakeholders to ensure sufficient flexibility under its principal finance facilities remains available.

Potential impact:
- The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees);
- Conducting existing business becomes increasingly challenging;
- May adversely affect the Company's ability to raise equity; and
- The loss of future business.

Mitigating actions:
- Effective cash forecasting and working capital management;
- Following COVID-19, the Kier Group has agreed waivers with its lenders in respect of the financial covenants for the test period ended 30 June 2020 and has agreed revised financial covenants which will apply for the going concern period;
- Collaborative engagement with customers, HMRC, pension scheme trustees, banks, lenders and sureties; and
- Exit, substantial exit or restructuring of non-core businesses to reduce net debt.

Market sector performance

Principal risk: a general market or sector downturn may materially and adversely affect the Company's ability to secure work.

The Company's performance is affected by macroeconomic factors which affect UK business in general and/or the markets in which the Company operates.

COVID-19 impact: high.

COVID-19 has resulted in high levels of macroeconomic sector uncertainty and volatility and has resulted in the UK entering a recession. This has, in turn, adversely affected the Company's financial performance.

Potential impact:
- A failure of one or more of the Company's businesses;
- 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.

Principle risks and uncertainties (continued)

Contract management
Principal risk: failure to manage contracts effectively at each stage of a project's lifecycle.

The Company has a number of large and complex contracts in progress at any one time. Failure to manage the risks associated with these contracts could materially and adversely affect the Company's financial performance.

COVID-19 impact: medium.

COVID-19 has resulted in certain projects being delayed or suspended and the Company incurring additional costs as a result.

Potential impact:
• A failure to manage project delivery and WIP and, ultimately, to meet the Company's financial targets;
• The Company incurring losses on individual contracts; and
• The Company failing to win new work.

Mitigating actions:
• Adhere to the Kier Group's contract risk governance framework;
• Identify early warnings of under-performing contracts; and
• Timely and accurate reporting of contract performance.

People
Principal risk: failure to retain key employees and identify future leaders.

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

COVID-19 impact: high.

The Company has implemented a number of measures relating to its employees, including temporary pay reductions, furlough and requiring more agile working practices (including working from home).

Potential impact:
• An adverse effect on the delivery of the Company's purpose and strategy;
• A lack of operational leadership, potentially leading to poor project performance; and
• An erosion of the Company's employer brand.

Mitigating actions:
• Focus on skills development and retention plans for the talent pipeline;
• Create an effective, inclusive work environment, through our Performance Excellence culture; and
• Clear and effective communication with the workforce.

Principle risks and uncertainties (continued)

Supply chain
Principal risk: failure to maintain effective working relationships with the supply chain; following COVID-19, supply chain insolvencies.

The Company relies on its supply chain for the delivery of its projects. Maintaining close and effective working relationships with the supply chain is therefore a priority for the Company. Following COVID-19, the risk of insolvencies in the supply chain has increased.

COVID-19 impact: medium.

The Company has worked closely with its supply chain to ensure that projects can be delivered. There has been an increase in the number of insolvencies within the supply chain as a result of COVID-19.

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

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

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.

The Company believes that COVID-19 has affected its short-term performance, rather than the longer-term delivery of its strategy.

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:
• Delivery of our Performance Excellence culture;
• Continued focus on cash management; and
• Effective communication with stakeholders.

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.

Principle risks and uncertainties (continued)

COVID-19

The COVID-19 pandemic has had, and may continue to have, a material and adverse effect on the Company's results of operations and a number of the Company's stakeholders, including its employees, clients and supply chain. 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.

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.

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.

Approved by the Board on 14 December 2020 and signed on its behalf by:

....
Lee Woodall
Director

Kier Integrated Services Limited

Directors' Report for the Year Ended 30 June 2020

The directors of Kier Integrated Services 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:

Andrew Bradshaw (appointed 30 September 2019)

Giuseppe Incutti (appointed 30 September 2019)

Barry McNicholas

Nigel Quelch

Lee Woodall

Thomas Foreman (appointed 3 December 2019 and resigned 31 August 2020)

Marcus Jones (resigned 12 February 2020)

David Wright (resigned 30 September 2019)

Dividends

No dividend was paid in the year and the directors do not recommend a final dividend in respect of the year.

Financial instruments

Objectives and policies

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

The nature of the industries and the business environment in which the Company operates are inherently risky. Although 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.

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

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

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').

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/

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.

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

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.

Future developments
The Company's future developments are set out in the Business Review section of the Strategic Report.

Going concern
Detailed cash flow forecasts are prepared and regularly reviewed to assess the Company's financial position. The business is forecast to remain cash generative and to have adequate resources to meet its future obligations. The Company's resources are supported by the strong order book, net current assets and a bank balance of £197.8m.

The directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. They have also received a letter from the directors of Kier Group plc (the Company's ultimate parent company), pledging support to allow the Company to meet its obligations. On these grounds the Board has continued to adopt the going concern basis for the preparation of the 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
In the case of each director in office at the date the Directors' Report is approved:

• so far as the director is aware, there is no relevant information of which the Company's auditors are unaware; and

• they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 14 December 2020 and signed on its behalf by:

....
Lee Woodall
Director

Kier Integrated Services 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 year. 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.

Kier Integrated Services Limited

Independent Auditors' Report to the Members of Kier Integrated Services Limited

Report on the audit of the financial statements

Opinion
In our opinion, Kier Integrated Services 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 loss 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 us to report to you 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.

Independent Auditors' Report to the Members of Kier Integrated Services 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 14, 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.

Independent Auditors' Report to the Members of Kier Integrated Services 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

....

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

Date: 14 September 2020

Kier Integrated Services Limited

Income Statement for the Year Ended 30 June 2020

	Note	2020 £ 000	2019 £ 000
Revenue	4	514,863	556,065
Cost of sales		(482,925)	(553,641)
Gross profit		31,938	2,424
Administrative expenses		(30,152)	(36,443)
Operating profit/(loss)	5	1,786	(34,019)
Finance income	7	7,533	6,479
Finance costs	8	(10,943)	(8,498)
Net finance cost		(3,410)	(2,019)
Loss before taxation		(1,624)	(36,038)
Income tax credit	12	1,535	4,909
Loss for the financial year		(89)	(31,129)
Supplementary information			
Adjusted[1] operating profit/(loss)	6	2,478	(3,236)
Adjusted[1] loss before tax	6	(932)	(5,255)

The above results were derived from continuing operations.

[1] Reference to 'adjusted' excludes adjusting items, see notes 2 and 6.

Kier Integrated Services Limited

Statement of Comprehensive Income for the Year Ended 30 June 2020

	2020 £ 000	2019 £ 000
Loss for the year	(89)	(31,129)
Total comprehensive expense for the year	(89)	(31,129)

Kier Integrated Services Limited

(Registration number: 00873179)
Statement of Financial Position as at 30 June 2020

	Note	2020 £ 000	2019 £ 000
Fixed assets			
Intangible assets	13	27,882	27,712
Property, plant and equipment	14	3,140	5,724
Right of use assets	15	10,140	-
Investments	16	15,491	15,539
Capitalised mobilisation costs	17	1,460	1,181
		58,113	50,156
Current assets			
Inventories	18	6,889	9,598
Contract assets	4	43,979	63,533
Trade and other receivables	19	80,249	52,102
Deferred tax assets	12	13,831	11,981
Cash and cash equivalents	20	197,769	156,642
		342,717	293,856
Total assets		400,830	344,012
Current liabilities			
Trade and other payables	21	(213,486)	(170,164)
Contract liabilities	4	(10,039)	(8,409)
Loans and borrowings	22	-	(80,889)
Lease liabilities	23	(4,517)	-
Income tax liability		(246)	(1,242)
Provisions	25	(84)	(6,707)
		(228,372)	(267,411)
Non-current liabilities			
Trade and other payables	21	(15,053)	-
Loans and borrowings	22	(148,710)	(85,298)
Lease liabilities	23	(4,948)	-
Provisions	25	-	(22,522)
		(168,711)	(107,820)
Total liabilities		(397,083)	(375,231)
Net assets/(liabilities)		3,747	(31,219)
Equity			
Called up share capital	26	36,500	1,500
Accumulated losses		(32,753)	(32,719)
		3,747	(31,219)
Total equity		3,747	(31,219)

The financial statements on pages 18 to 55 were approved by the Board of Directors on 14 December 2020 and signed on its behalf by:

....

Lee Woodall
Director

Kier Integrated Services Limited

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

	Called up share capital £ 000	Retained earnings/ (accumulated losses) £ 000	Total £ 000
At 1 July 2018	1,500	2,394	3,894
Change in accounting policy	-	(4,246)	(4,246)
At 1 July 2018 (As restated)	1,500	(1,852)	(352)
Loss for the year	-	(31,129)	(31,129)
Total comprehensive expense	-	(31,129)	(31,129)
Share based payment transactions	-	262	262
At 30 June 2019	1,500	(32,719)	(31,219)

	Called up share capital £ 000	Accumulated losses £ 000	Total £ 000
At 1 July 2019	1,500	(32,719)	(31,219)
Change in accounting policy	-	(255)	(255)
At 1 July 2019 (As restated)	1,500	(32,974)	(31,474)
Loss for the year	-	(89)	(89)
Total comprehensive expense	-	(89)	(89)
New share capital subscribed	35,000	-	35,000
Share based payment transactions	-	310	310
At 30 June 2020	36,500	(32,753)	3,747

The notes on pages 22 to 55 form an integral part of these financial statements.

1 General information

The Company is a private company limited by share capital incorporated in England and Wales 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 as applicable to companies using FRS 101.

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

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

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.

2 Accounting policies (continued)

Going concern
Detailed cash flow forecasts are prepared and regularly reviewed to assess the Company's financial position. The business is forecast to remain cash generative and to have adequate resources to meet its future obligations. The Company's resources are supported by the strong order book, net current assets and a bank balance of £197.8m.

The directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future. They have also received a letter from the directors of Kier Group plc (the Company's ultimate parent company), pledging support to allow the Company to meet its obligations. On these grounds the Board has continued to adopt the going concern basis for the preparation of the financial statements.

Exemption from preparing group financial statements
The financial statements contain information about Kier Integrated Services Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Kier Group plc, a company incorporated in England and Wales.

Changes in accounting policy
The following new standards, amendments to standards and interpretations are effective for the financial year ended 30 June 2020 onwards:
• IFRS 16 'Leases'
• Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation and modification of financial liabilities
• Amendments to IAS 19 'Employee Benefits' on plan amendment, curtailment or settlement
• Amendments to IAS 28 'Investments in Associates' on long term interests in associates and joint ventures
• Annual improvements 2015-2017 cycle
• IFRIC 23 'Uncertainty over income tax treatments'

Other than the impact of IFRS 16 as noted below, none of the above amendments to standards or interpretations have had a material effect on the financial statements.

2 Accounting policies (continued)

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.

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 £255,000 (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 at 30 June 2019	5,468
Operating lease commitments discounted at the incremental borrowing rate	4,955
Adjustments as a result of the assessment of the reasonably certain lease term for intra-group vehicle fleet leases	10,729
Adjustments resulting from the different treatment of extension and termination options	(1,340)
Recognition exemption for low-value assets	(142)
Other	40
Lease liabilities recognised at 1 July 2019	14,242

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 3.49%.

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.

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.'

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
Property, plant and equipment	(1,794)
Right of use assets	15,691
Deferred tax assets	52
Trade and other receivables	(3)
Lease liabilities	(14,242)
Trade and other payables	41
Decrease in retained earnings as at 1 July 2019	(255)

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.

2 Accounting policies (continued)

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;

• 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.

2 Accounting policies (continued)

Revenue and profit recognition policies applied to specific businesses are as follows:

(a) Construction contracts

Revenue is recognised on construction services over time as the benefit is transferred to the customer. The Company uses an input method to measure progress. The percentage of completion is measured using cost incurred to date as a proportion of the estimated full costs of completing the contract and is applied to the total expected contract revenue to determine the revenue to be recognised to date.

The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Consistent contract review procedures are in place in respect of contract forecasting.

(b) Services

Revenue and profit from services rendered, which include facilities management, highways maintenance, utilities maintenance, street cleaning and recycling, is recognised over time as the service is performed.

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

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

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

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

Adjusting items

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

During the year, the directors have reviewed the previous accounting presentation for disclosing items as non-underlying on the income statement. The directors have considered the requirements of applicable accounting standards, along with additional guidance around Alternative Performance Measures ('APM') and have concluded that the Company will move away from using its previous disclosure on the face of the Company's income statement. The directors consider that it would be more appropriate to present an income statement that shows the Company's statutory results only.

The directors, however, still believe it is appropriate to inform users regarding various items and disclose those items which are deemed one-off, material or non-recurring in size or nature and a decision has been made to align to internal management reporting as the directors consider it makes the financial statements' presentation clearer to the users of the accounts. As such, the Company is disclosing as supplementary information an 'Adjusted Profit' APM which is reconciled to statutory profit in the Notes to the Financial Statements.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Company in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items.

The directors exercise judgement in determining the classification of certain items as adjusting using quantitative and qualitative factors. In assessing whether an item is an adjusting item, the directors give consideration, both individually and collectively, as to an item's size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items.

2 Accounting policies (continued)

A full reconciliation from statutory numbers to adjusted profit measures has been presented in note 6 on page 38. As a result of the Company's change in its APM, a review of the prior year has been conducted to align to the revised presentation. No restatement of prior year numbers is required as the directors believe all material items in the prior year which were classified as a non-underlying item also meet the new definition of an adjusting item. Similarly, no material prior year items have been highlighted which meet the new adjusting items definition that did not meet the previous non-underlying items definition.

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.

Tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in profit or loss, except that a change 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.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

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:

2 Accounting policies (continued)

Asset class	Depreciation method and rate
Land and buildings	10% straight line or life of lease if shorter
Other property, plant and equipment	Between 10% and 25% straight line

Intangible assets
Goodwill arising on the acquisition of a business 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 business 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 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 business, the attributable amount of goodwill is included in the determination of the profit or loss recognised in the income statement on disposal.

Other intangible assets which comprises internally generated software development costs are stated at cost less accumulated amortisation and impairment losses.

Internally generated intangible assets developed by the Company are recognised only if all of the following conditions are met:
• an asset is created that can be identified;
• it is probable that the asset created will generate future economic benefits; and
• the development cost of the asset can be measured reliably.

Other expenditure is written off in the period in which it is incurred.

Amortisation
Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life as follows:

Asset class	Amortisation method and rate
Computer software development	5 years straight line

Investments
Investments in subsidiaries are included in the balance sheet at cost less any provision for impairment. Dividends on equity investments are recognised in income when receivable.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method.

At each reporting date, inventories are assessed for impairment. If inventories are impaired, 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.

2 Accounting policies (continued)

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to present value where the effect is material.

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.

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.

2 Accounting policies (continued)

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.

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 benefit pension obligation
The Company makes contributions to local government defined benefit pension schemes in respect of certain employees who have transferred to the Group under TUPE transfer arrangements. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and consequently the pension costs for these schemes are treated as if they were defined contribution schemes.

Share based payments
Employees of the Company participate in Kier Group equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of Kier Group plc. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair values of the options granted are calculated using the Black Scholes option pricing model, with the exception of the total shareholder return element of the long term incentive plan which is calculated based on a stochastic model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The amount expensed is funded by means of a capital contribution from Kier Group plc which is credited directly to equity.

Joint operations
The Company undertakes contracts jointly with other parties. These fall under the category of joint operations as defined by IFRS 11. In accordance with IFRS 11, the Company accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements.

2 Accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. An assessment of whether a financial asset is impaired is made at least at each reporting date.

The principal financial assets and liabilities of the Company are as follows:

(a) Trade receivables and trade payables
The Company has allocated receivables and payables due within 12 months of the balance sheet date to current with the remainder included in non-current.

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

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land purchases, are discounted and recorded at their present value.

Amounts owing under supply chain finance arrangements are included within trade payables rather than bank debt. The purpose of supply chain finance is purely to grant subcontractors and suppliers access to credit and improve their cashflows. There have been no changes to the underlying terms of the supply chain finance arrangements.

The designation in trade payables is due to the assignment of invoice rather than a novation, the Company acting as an agent with fees related to supply chain finance being borne by the supplier and the final payment date to the bank being set by the Company with interest accrued for any late payments.

(b) 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.

(c) Cash and cash equivalents
Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand, including bank deposits with original maturities of three months or less, net of bank overdrafts where legal right of set off exists. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(d) Bank and other borrowings
Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

2 Accounting policies (continued)

Classification and measurement
Financial assets are initially recognised at fair value. Financial liabilities are initially recognised at fair value, representing the proceeds received net of premiums, discounts and transaction costs that are directly attributable to the financial liability.

Subsequent to initial measurement, financial assets and financial liabilities are measured at either amortised cost or fair value.Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-
· financial assets at amortised cost;
· financial assets at fair value through other comprehensive income (FVTOCI); or
· financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-
· financial liabilities at amortised cost; or
· financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

Financial assets at amortised cost
A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-
· the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)
A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVPTL:-
· the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
· the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the Company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

2 Accounting policies (continued)

Financial assets at fair value through the profit or loss (FVTPL)
Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost
All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss
Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Derecognition

Financial assets

The Company derecognises a financial asset when;
- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the company is recognised as a separate asset or liability.

Financial liabilities

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

The Company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVPTL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the company recognises the lifetime ECL.

The Company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The Company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the company on terms that the company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Company, or economic conditions that correlate with defaults in the Company.

2 Accounting policies (continued)

Impairment of financial assets (continued)

Measurement of Expected Credit Losses (continued)

For trade receivables, the Company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2020 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

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 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 form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

Areas requiring critical judgement that may significantly impact on the Company's earnings and financial position are as follows:

Impairment of goodwill
The Company tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates. However, considerable headroom exists when comparing the carrying value of goodwill to the recoverable amount of the cash-generating units. Therefore, any reasonably possible change to the key assumptions is unlikely to give rise to a material impairment of goodwill.

Revenue recognition
On certain contracts the Company uses the percentage-of-completion method to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the statement of financial position date as a percentage of total estimated costs for each contract. The Company also assesses whether work in progress is impaired, in doing so estimates are made of future sales revenue, timing and build costs. The Company has controls in place to ensure that estimates of sales revenue are consistent, and external valuations are used where appropriate.

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

4 Revenue

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

	2020 £ 000	2019 £ 000
Rendering of services	510,364	551,756
Sale of goods	4,499	4,309
	514,863	556,065

The analysis of the Company's revenue for the year by class of business is as follows:

	2020 £ 000	2019 £ 000
Public Sector Services	177,381	225,919
Regulated Services	337,482	330,146
	514,863	556,065

The analysis of the Company's revenue for the year by market is as follows:

	2020 £ 000	2019 £ 000
UK	514,863	556,065

Revenue is derived from activities carried out entirely within the United Kingdom.

Contract assets arise where goods or services are transferred to the customer before the customer pays consideration, or before payment is due. When we have an unconditional right to consideration for the goods or services supplied and performance obligations delivered the amounts due are recognised as trade receivables. 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	43,979	63,533
Contract liabilities	(10,039)	(8,409)
Net unbilled contract assets	33,940	55,124

5 Operating profit/(loss)

Arrived at after charging/(crediting)

	2020 £ 000	2019 £ 000
Depreciation expenses - property, plant and equipment	536	1,002
Depreciation on right of use assets - plant and equipment	617	-
Depreciation on right of use assets - land and buildings	961	-
Depreciation on right of use assets - motor vehicles	4,297	-
Amortisation expense - intangible assets	302	531
Amortisation expense - capitalised mobilisation costs	316	124
Loss on disposal of property, plant and equipment	803	10
Operating lease expense - property	-	1,409
Operating lease expense - plant and machinery	-	47,279
Expense on short-term leases and leases of low-value assets	41,703	-

6 Adjusting items

	Operating profit/(loss)		Profit/(loss) before tax	
	2020 £ 000	2019 £ 000	2020 £ 000	2019 £ 000
Reported profit/(loss)	1,786	(34,019)	(1,624)	(36,038)
Restructuring and related charges	644	1,432	644	1,432
Provision for onerous contracts	-	23,218	-	23,218
Impairment of investments	48	6,133	48	6,133
Adjusted profit/(loss)	2,478	(3,236)	(932)	(5,255)

During the year the Company incurred £644,000 of restructuring costs in relation to its Highways business. In the prior year the Company incurred £1,432,000 of restructuring costs in relation to its Utilities business.

During the prior year the Company secured the termination of its largest loss-making environmental waste contract and as a result made a provision of £23,218,000.

During the prior year the Company increased its investment in Kier Recycling CIC by £7,000,000 after that entity had performed a recapitalisation exercise to increase its share capital. Following this, the Company assessed the carrying amount of its investments compared with the recoverable amount and consequently recognised an impairment provision of £48,000 in the current year and £6,133,000 in the prior year.

7 Finance income

	2020 £ 000	2019 £ 000
Interest income on bank deposits	2,655	2,685
Interest received from group undertakings	4,878	3,762
Dividend income	-	32
	7,533	6,479

8 Finance costs

	2020 £ 000	2019 £ 000
Interest on bank overdrafts and borrowings	1,849	3,974
Interest expense on leases	417	-
Interest on obligations under finance leases and hire purchase contracts	-	22
Interest paid to group undertakings	7,145	3,778
Discount unwind	1,532	724
	10,943	8,498

9 Staff costs

The aggregate payroll costs were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	96,799	110,020
Social security costs	8,972	10,458
Other pension costs	4,070	5,454
Share-based payment expenses	310	262
	110,151	126,194

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

	2020 No.	2019 No.
Public sector services	1,128	1,232
Regulated sector services	1,620	1,739
	2,748	2,971

10 Directors' remuneration

No directors were employed directly by the Company during the current or prior year. The directors were remunerated through other Kier Group companies. Any apportionment of their remuneration by time, in respect of performing their duties as directors of the Company, would be immaterial.

11 Auditors' remuneration

	2020 £ 000	2019 £ 000
Audit of the financial statements	51	50

12 Income tax credit

Tax credit in the income statement

	2020 £ 000	2019 £ 000
Current taxation		
UK corporation tax	297	11
UK corporation tax adjustment to prior periods	(34)	(312)
	263	(301)
Deferred taxation		
Arising from origination and reversal of temporary differences	(421)	(5,634)
Arising from changes in tax rates and laws	(1,386)	592
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	9	434
Total deferred taxation	(1,798)	(4,608)
Tax credit in the income statement	(1,535)	(4,909)

12 Income tax credit (continued)

The tax on loss before income tax for the year is lower than the standard rate of corporation tax in the UK (2019 - higher than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Loss before taxation	(1,624)	(36,038)
Corporation tax at standard rate	(309)	(6,847)
Decrease in current tax from adjustment for prior periods	(34)	(312)
Increase from effect of expenses not deductible in determining taxable profit / tax loss	126	1,230
Increase arising from group relief tax reconciliation	59	-
Deferred tax expense from unrecognised temporary difference from a prior period	9	434
Deferred tax (credit)/expense relating to changes in tax rates or laws	(1,386)	592
Decrease from effect of dividends from UK companies	-	(6)
Total tax credit	(1,535)	(4,909)

The deferred tax balance as at the year end has been recognised at 19.0% (2019: 17%) which is the enacted corporation tax rate effective from 1 April 2020.

Deferred tax

Deferred tax assets

2020	Asset £ 000
Accelerated tax depreciation	4,672
Other items	58
Tax credits	329
Tax losses carry-forwards	8,772
	13,831

2019	Asset £ 000
Accelerated tax depreciation	3,120
Other items	-
Tax credits	11
Tax losses carry-forwards	8,850
	11,981

12 Income tax credit (continued)

Deferred tax movement during the year:

	At 1 July 2019 £ 000	Recognised in income £ 000	Recognised in equity[1] £ 000	At 30 June 2020 £ 000
Accelerated tax depreciation	3,120	1,552	-	4,672
Other items	-	6	52	58
Tax credits	11	318	-	329
Tax losses carry-forwards	8,850	(78)	-	8,772
Net tax assets	11,981	1,798	52	13,831

[1] The amount recognised in equity relates to the impact on opening reserves of adopting IFRS 16 (see note 2).

Deferred tax movement during the prior year:

	At 1 July 2018 £ 000	Recognised in income £ 000	Recognised in equity[1] £ 000	At 30 June 2019 £ 000
Accelerated tax depreciation	3,475	(355)	-	3,120
Other items	65	(65)	-	-
Tax credits	-	11	-	11
Tax losses carry-forwards	2,962	5,017	871	8,850
Net tax assets	6,502	4,608	871	11,981

[1] The amount recognised in equity relates to the impact on opening reserves of adopting IFRS 15.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Having reviewed detailed profit forecasts, the directors consider that there is sufficient certainty of future profits to enable the recoverability of the deferred tax asset in full and therefore the deferred tax asset has been recognised in the financial statements.

13 Intangible assets

	Goodwill £ 000	Internally generated software development costs £ 000	Total £ 000
Cost or valuation			
At 1 July 2019	44,863	2,499	47,362
Additions	-	472	472
At 30 June 2020	44,863	2,971	47,834
Accumulated amortisation and impairment			
At 1 July 2019	18,788	862	19,650
Amortisation charge	-	302	302
At 30 June 2020	18,788	1,164	19,952
Carrying amount			
At 30 June 2020	26,075	1,807	27,882
At 30 June 2019	26,075	1,637	27,712

Amortisation of intangible assets is included within administrative expenses on the income statement.

Impairment

Goodwill

The annual impairment review carried out as at the balance sheet date indicated that none of the carrying values of goodwill required any further impairment.

14 Property, plant and equipment

	Land and buildings £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation			
At 30 June 2019	1,285	18,109	19,394
Impact of adopting IFRS 16	-	(10,167)	(10,167)
At 1 July 2019	1,285	7,942	9,227
Additions	372	206	578
Disposals	(909)	(3,074)	(3,983)
At 30 June 2020	748	5,074	5,822
Accumulated depreciation			
At 30 June 2019	741	12,929	13,670
Impact of adopting IFRS 16	-	(8,373)	(8,373)
At 1 July 2019	741	4,556	5,297
Charge for the year	71	465	536
Eliminated on disposal	(805)	(2,346)	(3,151)
At 30 June 2020	7	2,675	2,682
Carrying amount			
At 30 June 2020	741	2,399	3,140
At 30 June 2019	544	5,180	5,724

The net book value of property, plant and equipment as at 30 June 2019 included an amount of £1,794,000 in respect of assets held under finance leases. These assets have been reclassified as right-of-use assets on transition to IFRS 16.

15 Right of use assets

	Land and buildings £ 000	Motor vehicles £ 000	Plant and equipment £ 000	Total £ 000
Carrying amount				
At 1 July 2019	2,765	10,408	2,518	15,691
Additions	160	952	-	1,112
Disposals	(107)	-	(681)	(788)
Depreciation charge for the year	(961)	(4,297)	(617)	(5,875)
At 30 June 2020	1,857	7,063	1,220	10,140

16 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 July 2019	46,413
At 30 June 2020	46,413
Provision	
At 1 July 2019	30,880
Provision	48
At 30 June 2020	30,928
Carrying amount	
At 30 June 2020	15,485
At 30 June 2019	15,533

Details of the subsidiaries as at 30 June 2020 are as follows:

Name of subsidiary	Principal activity	Registered office[1]	Proportion of ownership interest and voting rights held 2020	2019
A C Chesters & Son Limited*	Dormant	2	100%	100%
Engage Lambeth Limited	Dormant (dissolved after the reporting period)	4	52%	52%
Engineered Products Limited (in liquidation)	Dormant	4	100%	100%
FDT (Holdings) Ltd*	Dormant	2	100%	100%
FDT Associates Ltd	Dormant	2	100%	100%
Kier Recycling CIC*	Collection and sale of recyclable materials	2	100%	100%
Lambeth Learning Partnership (PSP) Limited*	Dormant (dissolved after the reporting period)	4	65%	65%
T Cartledge Limited*	Dormant	2	100%	100%
T J Brent Limited*	Dormant	2	100%	100%

16 Investments (continued)

Name of subsidiary	Principal activity	Registered office[1]	Proportion of ownership interest and voting rights held 2020	2019
TOR2 Limited*	Waste, recycling collections and highways maintenance	2	80.01%	80.01%
Turriff Contractors Limited	Dormant	1	100%	100%
Turriff Group Limited*	Non-trading holding company	1	100%	100%
Underground Moling Services Limited	Dormant (dissolved after the reporting period)	3	100%	100%

* indicates direct investment of the Company

[1] See list of registered office details below.

Number	Registered office address
1	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, Scotland, G33 6HZ, United Kingdom
2	81 Fountain Street, Manchester, M2 2EE, United Kingdom
3	Atria One, 144 Morrison Street, Edinburgh, EH3 8EB, United Kingdom
4	1 More London Place, London, SE1 2AF, United Kingdom

Associates

	£ 000
Cost or valuation	
At 1 July 2019	6
At 30 June 2020	6
Carrying amount	
At 30 June 2019 and 30 June 2020	6

16 Investments (continued)

Details of the associates as at 30 June 2020 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held 2020	2019
Team Van Oord Limited *	Maintenance services in the utilities sector	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ United Kingdom	25%	25%

* indicates direct investment of the Company

Joint operations

Kier WSP

The Company has a material joint operation, Kier WSP, in which it holds a 50% share in the ownership (2019: 50%). The activities undertaken by this operation are highways maintenance. Its trading address is Northamptonshire Highways, Highways Depot, Harborough Road, Brixworth, Northamptonshire, NN6 9BX, United Kingdom.

Kier Clancy Docwra (KCD)

The Company has a material joint operation, Kier Clancy Docwra (KCD), in which it holds a 50% share in the ownership (2019: 50%). The activities undertaken by this operation are maintenance services in the utilities sector. Its trading address is Thames Water Offices, Clear Water Court, Vastern Road, Reading, RG1 8DB, United Kingdom.

17 Capitalised mobilisation costs

	2020 £ 000	2019 £ 000
At 1 July	1,181	-
Additions	595	1,305
Amortisation	(316)	(124)
At 30 June	1,460	1,181

18 Inventories

	2020 £ 000	2019 £ 000
Raw materials, consumables, finished goods and goods for resale	6,889	9,598

18 Inventories (continued)

The cost of inventories recognised as an expense in the year amounted to £55,094,000 (2019 - £59,104,000). This is included within cost of sales.

19 Trade and other receivables

	2020 £ 000	2019 £ 000
Trade receivables	13,182	22,178
Receivables from related parties	63,931	24,626
Prepayments	2,401	2,512
Social security and other taxes	735	656
Other receivables	-	2,130
	80,249	52,102

Receivables from related parties are unsecured, repayable on demand and attract interest at a rate of between 0% and 4% per annum.

20 Cash and cash equivalents

	2020 £ 000	2019 £ 000
Cash at bank	197,769	156,642

Cash and cash equivalents include £1,071,000 (2019: £2,077,000) being the Company's share of cash and cash equivalents held by joint operations.

21 Trade and other payables

	2020 £ 000	2019 £ 000
Trade payables	92,136	102,003
Accrued expenses	8,333	13,722
Amounts due to related parties	99,567	51,919
Social security and other taxes	6,550	45
Other payables	6,900	2,475
Total trade and other payables	213,486	170,164

	2020 £ 000	2019 £ 000
Non-current		
Trade payables	15,053	-

21 Trade and other payables (continued)

The following amounts are included within amounts due to related parties:
- loans from dormant or non-trading subsidiary companies totalling £16,306,000 (2019 - £16,306,000), which are unsecured, interest-free and repayable on demand.
- loans from other group companies totalling £12,082,000 (2019 - £12,374,000), which are unsecured, repayable on demand and attract interest at a rate varied by the group from time to time (4% for the current and preceding accounting periods).
- trading balances with fellow group companies totalling £71,179,000 (2019 - £16,239,000), which are unsecured, interest-free and repayable on demand.

22 Loans and borrowings

	2020 £ 000	2019 £ 000
Non-current loans and borrowings		
Other borrowings	148,710	85,298

Non-current other borrowings for the current year consists of a loan of £60,000,000 from Kier Group plc which is repayable on 30 June 2025 and a loan of £88,710,000 from Kier Limited which is repayable on 30 June 2024. Both loans are unsecured and interest is fixed at 4% per annum.

Non-current other borrowings for the prior year consists of the above mentioned loan from Kier Limited which is repayable on 30 June 2024. The loan is unsecured and interest is fixed at 4% per annum.

	2020 £ 000	2019 £ 000
Current loans and borrowings		
HP and finance lease liabilities	-	125
Other borrowings	-	80,764
	-	80,889

Current other borrowings in the prior year consists of a loan from Kier Group plc which was repaid on 30 June 2020. The loan was unsecured and interest was fixed at 4% per annum.

23 Lease liabilities

Leases included in liabilities

	2020 £ 000	2019 £ 000
Current	4,517	-
Non-current	4,948	-
Total lease liability	9,465	-

23 Lease liabilities (continued)

Lease liabilities maturity analysis

Future minimum lease payments as at 30 June 2020 are as follows[1]:

	2020 £ 000	2019 £ 000
Less than one year	4,772	-
One to two years	2,831	-
Two to three years	1,805	-
Three to four years	409	-
Four to five years	95	-
Total gross payments	9,912	-
Impact of finance expenses	(447)	-
Carrying amount of liability	9,465	-

[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
Principal elements of lease payments	6,030	-
Interest	418	-
Total cash outflow	6,448	-

24 Obligations under leases and hire purchase contracts

Finance leases

2019	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
Within one year	126	(1)	125

The present values of future finance lease payments are analysed as follows:

	2020 £ 000	2019 £ 000
Current liabilities	-	125

24 Obligations under leases and hire purchase contracts (continued)

Operating leases

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

	2020 £ 000	2019 £ 000
Within one year	-	1,826
In two to five years	-	3,321
In over five years	-	321
	-	5,468

25 Provisions

	Onerous contracts £ 000	Other provisions £ 000	Total £ 000
At 1 July 2019	29,034	195	29,229
Provisions used	(16,294)	-	(16,294)
Unused provision reversed	-	(111)	(111)
Increase due to passage of time or unwinding of discount	1,532	-	1,532
Decrease from transfers and other changes	(14,272)	-	(14,272)
At 30 June 2020	-	84	84
Current liabilities	-	84	84

During prior years the Company recognised provisions for future losses on its environmental services waste collection contracts, which it believed would remain loss making over the life of the contracts.

Of the provision brought forward at 30 June 2019, £16,294,000 has been utilised in the year to offset losses incurred and early compensation payments due to the client under the mutual early termination agreement on the environmental services waste collection contracts. The contracts concluded in March 2020 and therefore the remaining provision to cover the remaining compensation payments has been transferred to trade payables.

During the prior year the Company made a provision of £195,000 for restructuring costs in relation to its Utilities business. Of the provision brought forward at 30 June 2019, £111,000 has been utilised in the year to offset costs incurred.

26 Called up share capital

Allotted, called up and fully paid shares

	No.	2020 £ 000	No.	2019 £ 000
Ordinary shares of £1 each	36,500,000	36,500	1,500,000	1,500

26 Called up share capital (continued)

During the year the Company received a capital injection from its immediate parent company, Kier Integrated Services Group Limited, by way of newly issued share capital of £35,000,000.

27 Share-based payments

The Kier Group Savings 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 ordinary 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.

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.

No share options were exercised by participants of the Sharesave schemes during the current or preceding years.

The options outstanding at 30 June 2020 had rights-adjusted exercise prices ranging from £1.01 to £9.66 (2019 - from £7.57 to £11.35) and a weighted average remaining contractual life of 2.3 years (2019 - 2.0 years).

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

Scheme description

The Group has a Long-Term Incentive Plan (LTIP) in which senior employees of the Company participate. Awards made under the LTIP scheme are normally able to vest following the third anniversary of the date of the grant. Vesting may be in full or in part (with the balance of the award lapsing) and is subject to the Group achieving specific performance targets. Awards under the LTIP are all equity settled by way of shares in Kier Group plc.

No share options vested under the LTIP schemes during the year. The weighted average share price at date of exercise of share options exercised during the preceding year was £8.86.

The options outstanding at 30 June 2020 had exercise price of £Nil (2019 - £Nil) and a weighted average remaining contractual life of 2.3 years (2019 - 0.3 years).

27 Share-based payments (continued)

Conditional Share Award Plan ('CSAP')

Scheme description

The Group has a conditional share award plan (CSAP) under which senior employees of the Company receive awards of shares subject only to service conditions, i.e. the requirement for participants to remain in employment with the Group over the vesting period. Participants are entitled to receive dividend equivalents on these awards. Awards under the CSAP are all equity settled by way of shares in Kier Group plc.

No shares have yet vested under the CSAP.

The options outstanding at 30 June 2020 had an exercise price of £Nil (2019 - £Nil) and a weighted average remaining contractual life of 0.9 years (2019 - 1.9 years).

28 Contingent liabilities

The Company has given an unlimited guarantee, secured by fixed and floating charges over the Company's assets in respect of the borrowings from Bank of Scotland, of Kier Integrated Services (Holdings) Limited and that company's subsidiaries. At 30 June 2020 the net indebtedness of these companies for borrowings repayable on demand amounted to £Nil (2019 - £Nil).

The Company has given guarantees and indemnities in respect of performance bonds. At 30 June 2020, indemnities outstanding amounted to £4,530,000 (2019 - £4,524,000).

Following recent changes in sentencing guidelines relating to breaches of safety, health and environmental legislation and regulation, the directors considered whether it would be appropriate to include a provision in the financial statements relating to such breaches. However, the directors concluded that it was not currently possible to estimate with reasonable accuracy the amount of such a provision.

29 Related party transactions

Income and receivables from related parties

2020	Subsidiary £ 000
Receipt of services	889
Amounts receivable from related party	160

2019	Subsidiary £ 000
Receipt of services	1,037
Amounts receivable from related party	163

Expenditure with and payables to related parties

2020	Subsidiary £ 000
Rendering of services	3
Amounts payable to related party	12

29 Related party transactions (continued)

2019	Subsidiary £ 000
Rendering of services	16
Amounts payable to related party	9

Loans to related parties

2020	Subsidiary £ 000
At start of year	2,850
Advanced	-
Repaid	-
At end of year	2,850

2019	Subsidiary £ 000
At start of year	600
Advanced	6,850
Repaid	(4,600)
At end of year	2,850

Terms of loans to related parties

Kier Integrated Services Limited made available a working capital loan facility to TOR2 Limited until 8th July 2020. TOR2 Limited had previously been able to draw down and repay loans at any time while the facility is available. Now that TOR2 Limited has ceased trading, the loan balance has been frozen and will be settled as part of the winding up process of TOR2 Limited.

Loans from related parties

2019	Subsidiary £ 000
At start of the financial year	5,000
Repaid	(5,000)
At end of the financial year	-

Terms of loans from related parties

During the prior year Kier Integrated Services Limited fully repaid its £5m loan from TOR2 Limited. No interest was charged.

The Company is applying FRS 101 and is therefore taking advantage of the exemption from the requirements within IAS 24 to disclose related party transactions entered into between two or more members of a group, where any subsidiary which is party to the transaction is wholly owned by such a member.

30 Parent and ultimate parent undertaking

The Company's immediate parent is Kier Integrated Services Group Limited.

The ultimate parent is Kier Group plc.

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

The ultimate controlling party is Kier Group plc.

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 on Kier Group plc can be obtained from www.kier.co.uk.

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

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