

Registration number: 00873179

Kier Integrated Services Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2018



Kier Integrated Services Limited

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Kier Integrated Services Limited

Company Information

Directors	Iain Bray Adrian Jones Marcus Jones Barry McNicholas Nigel Quelch David Wright
Company secretary	Bethan Melges
Registered office	Tempsford Hall Sandy Bedfordshire SG19 2BD
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

Kier Integrated Services Limited

Strategic Report for the Year Ended 30 June 2018

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

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 remained relatively stable at £509.4m (2017 - £513.6m), a decrease of less than 1%. A decline in public sector services revenue, in part due to the strategic decision to reduce the Company's presence in the environmental services market, has been largely offset by increased revenues in the regulated sector.

The Company made a profit before income tax of £21.1m (2017 - £17.1m), up 23%, largely due to the impact of a higher level of non-underlying items on the prior year results.

Owing mainly to the profit during the year, the Company moved from a net liabilities position of £14.5m in 2017 to a net assets position of £3.9m in 2018.

Public Sector Services

In local authority roads, funding pressures continue to lead to a wide variety of client delivery and procurement solutions being explored covering both insourcing and outsourcing. The devolution of funding and decision-making, both locally and regionally, is now starting to gather pace with the establishment of Regional Transport Bodies, Mayoral Authorities and increased collaboration between authorities. The Company will continue to explore growth opportunities with its existing client base.

The operational performance of the environmental services business is stable whilst markets remain challenging as a result of low recycle prices. The Company is negotiating the termination of one major contract in this business and will continue to reduce its exposure to this market as contracts conclude.

Regulated Services

In the water sector, procurement for the upcoming AMP7 regulatory period is under way and we are engaging with both new and existing clients on their requirements through their bid processes. In August 2018, Kier was appointed as one of four framework partners carrying out the £45m mechanical and electrical services (MEICA) programme of works to service the three-year requirements of South West Water.

In the power sector, the Company has secured an initial three-year contract with Western Power Distribution to the value of around £30m per year, covering areas in the West and East Midlands. The new regulatory period commences in 2021 and early engagement with prospective clients has commenced.

Kier Integrated Services Limited

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

Fair review of the business (continued)

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

	Unit	2018	2017
Underlying EBITA margin	%	4.9	4.7
Order book	£bn	1.0	1.4
Safety	AIR	66	271

Underlying EBITA is calculated as underlying operating profit (2018: £24,420,000; 2017: £23,986,000) plus an add-back for the amortisation charged (2018: £331,000; 2017: £Nil). Underlying EBITA margin is underlying EBITA as a proportion of underlying 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.

Employee engagement: Our people are on the front line of the delivery of essential services which means that their overall levels of satisfaction and engagement are a key factor in our ability to deliver a great service for our clients. We measure satisfaction through the Kier Group biennial employee survey. The 2018 survey resulted in employee engagement of 54% (2016 - 52%) for the Company's employees. The next biennial employee survey is due to be carried out in 2020.

Outlook

The overall outlook for the Company is positive, despite Brexit and the current 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

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

Kier Integrated Services Limited

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

Principal risks and uncertainties

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

The nature of the industries and the business environment in which the Company operates are 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. The principal risks as relevant to the Company are set out below, together with a summary of the actions taken to mitigate each risk.

Recyclate materials price variances

The Company operates a waste collection contract with recyclate income clauses and is therefore exposed to movements in the market prices of recyclate materials. Recyclate income is highly correlated to oil prices. The risk remains that oil prices could fall which could result in loss of income for the Company.

Safety, health and sustainability

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

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

- an increase in safety or environmental incidents on site;
- the cost of sickness absence not reducing;
- the Company's energy costs not reducing;
- the failure to meet client's expectations;
- the failure to meet investors' expectations;
- reduced ability to bid for and win new work;
- reputational damage; and
- financial penalties arising from fines, legal action and project delays.

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

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

Kier Integrated Services Limited

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

Principle risks and uncertainties (continued)

Regulation

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

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

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

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

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

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

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

Funding

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

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

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

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

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

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

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

Kier Integrated Services Limited

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

Principle risks and uncertainties (continued)

Market and sector performance

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

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

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

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

Operating model

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

Failure to do so could result in:

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

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

Contract management

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

Failure to manage contracts effectively could result in:

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

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

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

Kier Integrated Services Limited

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

Principle risks and uncertainties (continued)

Pre-contract governance

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

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

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

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

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

People

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

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

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

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

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

Innovation

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

Failure to do so may result in:

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

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

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

Kier Integrated Services Limited

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

Principle risks and uncertainties (continued)

Cyber-security

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

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

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

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

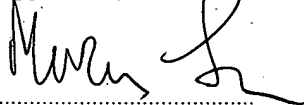
- Continue to strengthen the Kier Group's dedicated cyber-security team;
- Consider outsourcing elements of the Kier Group's IT systems where it is appropriate to do so; and
- Continue to test information security alongside recognised UK and International standards (for example, ISO27001).

Brexit

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

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

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



Marcus Jones
Director

Kier Integrated Services Limited

Directors' Report for the Year Ended 30 June 2018

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

Directors of the company

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

Iain Bray

Adrian Jones

Marcus Jones

Barry McNicholas (appointed 19 April 2018)

Nigel Quelch

David Wright

Sean Jeffery (resigned 21 November 2018)

Ian MacKintosh (resigned 30 November 2017)

Julian Tranter (resigned 30 June 2018)

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. Without these, revenue and profit would reduce. 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.

Kier Integrated Services Limited

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

Employees

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

Employment of disabled persons

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

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

Employee involvement

The Group provides information to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. The Group also conducts engagement surveys to obtain feedback on matters of importance to employees. The Group operates Sharesave Schemes for eligible employees and a Share Incentive Plan for all employees, which includes a share-matching element.

Safety, health and environment

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

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

The role of the Committee includes:

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

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

Future developments

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

Kier Integrated Services Limited

Directors' Report for the Year Ended 30 June 2018 (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 and minimal debt.

The directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future and, therefore, continue 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 auditors

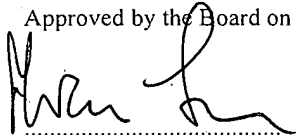
Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the financial statements with the registrar, whichever is 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 17 December 2018 and signed on its behalf by:



Marcus Jones
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 period. In preparing the financial statements, the directors are required to:

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

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

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

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

Kier 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 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 June 2018; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

Reporting on other information

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

Kier Integrated Services Limited

Independent Auditors' Report to the Members of Kier Integrated Services Limited (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 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 12, 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 financial statements and the audit

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

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

Use of this report

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

Kier Integrated Services Limited

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

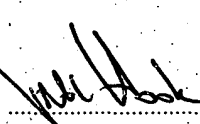
Other required reporting

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.



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

20 December 2018

Kier Integrated Services Limited

Income Statement for the Year Ended 30 June 2018

		Underlying operations	Non-underlying items (Note 6)	Total	Underlying operations	Non-underlying items (Note 6)	Total
	Note	2018 £ 000	2018 £ 000	2018 £ 000	2017 £ 000	2017 £ 000	2017 £ 000
Revenue	4	509,423	-	509,423	513,567	-	513,567
Cost of sales		(465,471)	-	(465,471)	(476,719)	-	(476,719)
Gross profit		43,952	-	43,952	36,848	-	36,848
Administrative expenses		(19,532)	-	(19,532)	(12,862)	-	(12,862)
Other operating expenses		-	(1,000)	(1,000)	-	(3,820)	(3,820)
Operating profit/(loss)	5	24,420	(1,000)	23,420	23,986	(3,820)	20,166
Finance income	7	4,784	-	4,784	3,653	-	3,653
Finance costs	8	(7,076)	-	(7,076)	(6,756)	-	(6,756)
Net finance cost		(2,292)	-	(2,292)	(3,103)	-	(3,103)
Profit/(loss) before income tax		22,128	(1,000)	21,128	20,883	(3,820)	17,063
Income tax (expense)/credit	12	(3,388)	190	(3,198)	(5,392)	390	(5,002)
Profit/(loss) for the financial year		18,740	(810)	17,930	15,491	(3,430)	12,061

The above results were derived from continuing operations.

Kier Integrated Services Limited

Statement of Comprehensive Income for the Year Ended 30 June 2018

	2018	2017
	£ 000	£ 000
Profit for the financial year	<u>17,930</u>	<u>12,061</u>
Total comprehensive income for the year	<u><u>17,930</u></u>	<u><u>12,061</u></u>

The notes on pages 20 to 44 form an integral part of these financial statements.

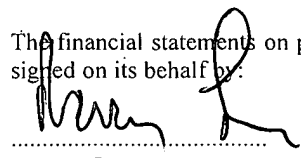
Kier Integrated Services Limited

(Registration number: 00873179)

Statement of Financial Position as at 30 June 2018

	Note	2018 £ 000	2017 £ 000
Assets			
Non-current assets			
Intangible assets	13	27,816	27,657
Property, plant and equipment	14	6,102	7,184
Investments	15	14,672	15,475
Deferred tax assets	12	6,502	4,813
		<u>55,092</u>	<u>55,129</u>
Current assets			
Inventories	16	11,170	15,542
Trade and other receivables	17	141,239	116,634
Cash and cash equivalents	18	96,358	93,761
		<u>248,767</u>	<u>225,937</u>
Total assets		<u>303,859</u>	<u>281,066</u>
Current liabilities			
Trade and other payables	19	(204,947)	(199,040)
Loans and borrowings	20	(645)	(1,557)
Income tax liability		(5,022)	(1,058)
Provisions	22	(5,391)	(7,204)
		<u>(216,005)</u>	<u>(208,859)</u>
Non-current liabilities			
Loans and borrowings	20	(77,782)	(75,441)
Provisions	22	(6,178)	(11,219)
		<u>(83,960)</u>	<u>(86,660)</u>
Total liabilities		<u>(299,965)</u>	<u>(295,519)</u>
Net assets/(liabilities)		<u>3,894</u>	<u>(14,453)</u>
Equity			
Called up share capital	23	1,500	1,500
Retained earnings/(accumulated losses)		<u>2,394</u>	<u>(15,953)</u>
Total equity		<u>3,894</u>	<u>(14,453)</u>

The financial statements on pages 16 to 44 were approved by the Board of Directors on 17 December 2018 and signed on its behalf by:



 Marcus Jones
 Director

The notes on pages 20 to 44 form an integral part of these financial statements.

Kier Integrated Services Limited

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

	Called up share capital £ 000	(Accumulated losses)/retained earnings £ 000	Total equity £ 000
At 1 July 2017	1,500	(15,953)	(14,453)
Profit for the financial year	-	17,930	17,930
Total comprehensive income for the year	-	17,930	17,930
Share based payment transactions	-	417	417
At 30 June 2018	1,500	2,394	3,894

	Called up share capital £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 July 2016	1,500	(28,145)	(26,645)
Profit for the financial year	-	12,061	12,061
Total comprehensive income for the year	-	12,061	12,061
Share based payment transactions	-	131	131
At 30 June 2017	1,500	(15,953)	(14,453)

The notes on pages 20 to 44 form an integral part of these financial statements.

Kier Integrated Services Limited

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

1 General information

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

The address of its registered office is:

Tempsford Hall

Sandy

Bedfordshire

SG19 2BD

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework and with the Companies Act 2006.

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

The 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;

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

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

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

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

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

Kier Integrated Services Limited

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

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 and minimal debt.

The directors have a reasonable expectation that the Company has adequate resources to continue operating for the foreseeable future and, therefore, continue 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 amendments to standards are effective for the first time from 1 July 2017:

- Amendments to IAS 7 Statement of Cash Flows
- Amendments to IAS 12 Income Taxes
- Annual Improvements to 2014-2016 cycle - IFRS 12 Disclosure of Interests in Other Entities

None of the above amendments to standards have had a material effect on the financial statements.

Revenue recognition

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

The Company recognises revenue when:

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

Contract revenue reflects the contract activity during the year and is measured at the fair value of consideration received or receivable. When the outcome can be assessed reliably, contract revenue and associated costs are recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date. The stage of completion is measured by reference to the contract costs incurred up to the reporting date as a percentage of total estimated costs for each contract.

Where the outcome of a long-term contract cannot be estimated reliably revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable, and contract costs are recognised as an expense in the period in which they are incurred.

In the case of a cost-plus contract, the outcome of a contract can be estimated reliably when it is probable that the economic benefits associated with the contract will flow to the Company, and the contract costs attributable to the contract, whether or not specifically reimbursable, can be clearly identified and measured reliably.

Kier Integrated Services Limited

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

2 Accounting policies (continued)

Non-underlying items

Certain items are presented separately in the income statement as non-underlying items where, in the judgement of the directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Company's underlying business performance.

Examples of material items which may give rise to disclosure as non-underlying items include gains or losses on the disposal or closure of businesses, costs of restructuring and reorganisation of existing businesses, certain material and one-off provisions (e.g. onerous contract provisions in the environmental services business), asset impairments and unwind of discounts. These are examples, and from time to time it may be appropriate to disclose further items as non-underlying in order to highlight the underlying performance of the Company.

Underlying operating profit is one of the key measures used by the Group Board to monitor the Company's and Group's performance.

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:

Asset class

Land and buildings

Other property, plant and equipment

Depreciation method and rate

10% straight line or life of lease if shorter

Between 10% and 25% straight line

Kier Integrated Services Limited

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

2 Accounting policies (continued)

Intangible assets

Goodwill arising on the acquisition of 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 securities are classified on initial recognition as available-for-sale and are carried at fair value, except where their fair value cannot be measured reliably, in which case they are carried at cost, less any impairment.

Unrealised holding gains and losses other than impairments are recognised in other comprehensive income. On maturity or disposal, net gains and losses previously deferred in accumulated other comprehensive income are recognised in income.

Interest income on debt securities, where applicable, is recognised in income using the effective interest method. Dividends on equity securities are recognised in income when receivable.

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.

Cash and cash equivalents

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

Kier Integrated Services Limited

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

2 Accounting policies (continued)

Trade receivables

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

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

Contract work in progress is valued at cost plus attributable profit less foreseeable losses. Attributable profit is included when the outcome of a contract can be assessed with reasonable certainty. The excess of book value over amounts received on individual contracts is included in trade receivables and payments received in excess of book value are included in trade payables.

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.

Trade payables

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

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

Borrowings

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

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

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

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.

Kier Integrated Services Limited

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

2 Accounting policies (continued)

Leases

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

Assets held under finance leases are recognised as non-current assets of the Company at the lower of their fair value at the date of commencement of the lease and at the present value of the minimum lease payments. These assets are depreciated on a straight-line basis over the shorter of the useful life of the asset and the lease term. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

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

Share capital

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

Defined 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.

Kier Integrated Services Limited

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

3 Critical accounting judgements and key sources of estimation uncertainty

To be able to prepare financial statements according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and 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.

Impairment of investments

The Company tests annually whether investments have suffered any impairment. The recoverable amounts of subsidiaries are determined based on value-in-use calculations or fair value less cost to sell if held for sale. These calculations require the use of estimates.

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.

Provisions for loss making contracts

In accordance with accounting standards, provision is made for losses incurred or foreseen in bringing a contract to completion as soon as they become apparent. In assessing the need for provisions for future losses on such contracts the Board considers a number of areas including: underlying contract losses; operational efficiency gains; claims opportunities and discussions with clients as well as probability assessment in relation to the likely outcome of these factors and the appropriate discount rate. Calculations have been prepared applying the forecast performance and other key assumptions to support the estimated provision that has been made.

Kier Integrated Services Limited

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

4 Revenue

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

	2018 £ 000	2017 £ 000
Rendering of services	505,034	509,566
Sale of goods	4,389	4,001
	<u>509,423</u>	<u>513,567</u>

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

	2018 £ 000	2017 £ 000
Public Sector Services	214,951	243,836
Regulated Services	294,472	269,731
	<u>509,423</u>	<u>513,567</u>

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

	2018 £ 000	2017 £ 000
UK	<u>509,423</u>	<u>513,567</u>

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

5 Operating profit/(loss)

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	1,232	3,509
Amortisation expense	331	-
Operating lease expense - property	1,286	1,426
Operating lease expense - plant and machinery	40,719	47,514
Profit on disposal of property, plant and equipment	<u>(217)</u>	<u>(361)</u>

Kier Integrated Services Limited

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

6 Non-underlying items

	Note	2018 £ 000	2017 £ 000
Provision for onerous contracts	22	1,000	982
Materials market decline in the year plus other exceptional write-offs in respect of work in progress and debt relating to the environmental services business		-	1,315
Health and Safety Executive fines and related costs		-	1,523
		<u>1,000</u>	<u>3,820</u>

In classifying items as non-underlying, the Directors are required to make judgements as to whether an item meets the criteria set out in the Company's accounting policy on page 22, including whether by their size, nature or incidence they need to be disclosed separately in order to present a clear, consistent view of the Company's underlying business performance.

During prior periods 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. The out-turn of these contracts is continually monitored. Following the review at 30 June 2018, the provision has been increased by £1.0m. In the prior year the Company incurred an exceptional charge of £1.3m and made a further provision of £1.0m for the early termination of an environmental services contract in 2019. The Company has consistently shown provisions for future losses and other exceptional costs in relation to its environmental business as non-underlying as by their size and nature they warrant separate disclosure to enable the user of the financial statements to gain an understanding of their effect on the overall results of the Company and to provide a consistent presentation of the Company's underlying business performance.

Also, in the prior year the Company incurred costs of £1.5m for a Health and Safety Executive ('HSE') fine and related expenses in relation to a health and safety breach incurred by the Company prior to its acquisition by the Kier Group. The Directors judged the HSE fine to be non-underlying due to the one-off impact of a change in the HSE fines regime and the infrequent occurrence of fines of this magnitude for the Company.

Kier Integrated Services Limited

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

7 Finance income

	2018 £ 000	2017 £ 000
Interest income on bank deposits	3,457	3,011
Dividend income	803	135
Interest received from group undertakings	524	507
	<u>4,784</u>	<u>3,653</u>

8 Finance costs

	2018 £ 000	2017 £ 000
Interest on bank overdrafts and borrowings	1,194	1,092
Interest on obligations under finance leases and hire purchase contracts	67	149
Interest expense on other financing liabilities	35	14
Interest paid to group undertakings	3,362	3,252
Discount unwind	2,418	2,249
	<u>7,076</u>	<u>6,756</u>

9 Staff costs

The aggregate payroll costs were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	102,180	82,190
Social security costs	9,439	9,703
Other post-employment benefit costs	6,053	2,834
Share-based payment expenses	417	131
	<u>118,089</u>	<u>94,858</u>

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

	2018 No.	2017 No.
Public sector services	1,283	1,473
Regulated sector services	1,476	1,342
Central administration	-	7
	<u>2,759</u>	<u>2,822</u>

Kier Integrated Services Limited

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

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 would be immaterial.

11 Auditors' remuneration

	2018	2017
	£ 000	£ 000
Audit of the financial statements	<u>49</u>	<u>80</u>
Other fees to auditors		
All other non-audit services	<u>-</u>	<u>5</u>

In addition to the above audit fees, the fees for the audit of the Company's highways business (c£19,000) have been borne by a fellow Group subsidiary, Kier Highways Limited.

Kier Integrated Services Limited

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

12 Income tax expense/(credit)

Tax charged/(credited) in the income statement

	2018 £ 000	2017 £ 000
Current taxation		
UK corporation tax	1,891	241
UK corporation tax adjustment to prior periods	<u>2,996</u>	<u>(335)</u>
	<u>4,887</u>	<u>(94)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,131	3,489
Arising from changes in tax rates and laws	(221)	(26)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>(3,599)</u>	<u>1,633</u>
Total deferred taxation	<u>(1,689)</u>	<u>5,096</u>
Tax expense in the income statement	<u><u>3,198</u></u>	<u><u>5,002</u></u>

The tax on profit/(loss) before income tax for the year is lower than the standard rate of corporation tax in the UK (2017 - higher than the standard rate of corporation tax in the UK) of 19% (2017 - 19.75%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	<u>21,128</u>	<u>17,063</u>
Corporation tax at standard rate	4,014	3,370
Increase/(decrease) in current tax from adjustment for prior periods	2,996	(335)
Decrease from effect of revenues exempt from taxation	(13)	-
Increase from effect of expenses not deductible in determining taxable profit / tax loss	174	387
Deferred tax (credit)/expense from unrecognised temporary difference from a prior period	(3,599)	1,633
Deferred tax credit relating to changes in tax rates or laws	(221)	(26)
Decrease from effect of dividends from UK companies	<u>(153)</u>	<u>(27)</u>
Total tax charge	<u><u>3,198</u></u>	<u><u>5,002</u></u>

The deferred tax balance as at the year end has been recognised at 17.0% which is the enacted corporation tax rate that will be effective from 1 April 2020.

Kier Integrated Services Limited

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

12 Income tax expense/(credit) (continued)

Deferred tax

Deferred tax assets and liabilities

2018	Asset £ 000
Accelerated tax depreciation	3,475
Other items	65
Share-based payment	-
Tax losses carry-forwards	2,962
	<u>6,502</u>
2017	Asset £ 000
Accelerated tax depreciation	4,672
Other items	141
Share-based payment	-
Tax losses carry-forwards	-
	<u>4,813</u>

Deferred tax movement during the year:

	At 1 July 2017 £ 000	Recognised in income £ 000	At 30 June 2018 £ 000
Accelerated tax depreciation	4,672	(1,197)	3,475
Other items	141	(76)	65
Share-based payment	-	-	-
Tax losses carry-forwards	-	2,962	2,962
Net tax assets	<u>4,813</u>	<u>1,689</u>	<u>6,502</u>

Deferred tax movement during the prior year:

	At 1 July 2016 £ 000	Recognised in income £ 000	At 30 June 2017 £ 000
Accelerated tax depreciation	3,442	1,230	4,672
Other items	496	(355)	141
Share-based payment	23	(23)	-
Tax losses carry-forwards	5,948	(5,948)	-
Net tax assets/(liabilities)	<u>9,909</u>	<u>(5,096)</u>	<u>4,813</u>

Kier Integrated Services Limited

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

12 Income tax expense/(credit) (continued)

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.

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 2017	44,863	1,582	46,445
Additions	-	490	490
At 30 June 2018	44,863	2,072	46,935
Amortisation and impairment			
At 1 July 2017	18,788	-	18,788
Amortisation charge	-	331	331
At 30 June 2018	18,788	331	19,119
Carrying amount			
At 30 June 2018	26,075	1,741	27,816
At 30 June 2017	26,075	1,582	27,657

Impairment

Goodwill

The impairment review indicated that none of the carrying values of goodwill were impaired.

Kier Integrated Services Limited

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

14 Property, plant and equipment

	Land and buildings £ 000	Other property, plant and equipment £ 000	Total £ 000
Cost or valuation			
At 1 July 2017	937	20,083	21,020
Additions	-	644	644
Disposals	(28)	(2,704)	(2,732)
At 30 June 2018	909	18,023	18,932
Accumulated depreciation			
At 1 July 2017	575	13,261	13,836
Charge for the year	101	1,131	1,232
Eliminated on disposal	(25)	(2,213)	(2,238)
At 30 June 2018	651	12,179	12,830
Carrying amount			
At 30 June 2018	258	5,844	6,102
At 30 June 2017	362	6,822	7,184

Assets held under finance leases and hire purchase contracts

The net carrying amount of property, plant and equipment includes the following amounts in respect of assets held under finance leases and hire purchase contracts:

	2018 £ 000	2017 £ 000
Other property, plant and equipment	2,626	3,734

Kier Integrated Services Limited

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

15 Investments

Subsidiaries	£ 000
Cost or valuation	
At 1 July 2017	39,413
At 30 June 2018	39,413
Provision	
At 1 July 2017	23,944
Provision	803
At 30 June 2018	24,747
Carrying amount	
At 30 June 2018	14,666
At 30 June 2017	15,469

Kier Integrated Services Limited

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

15 Investments (continued)

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

Name of subsidiary	Principal activity	Registered office ¹	Proportion of ownership interest and voting rights held	
			2018	2017
Turriff Group Limited*	Dormant	1	100%	100%
Turriff Contractors Limited	Dormant	1	100%	100%
Underground Moling Services Limited (in liquidation)	Dormant	3	100%	100%
Turriff Smart Services Limited (in liquidation)	Dormant	3	100%	100%
Lambeth Learning Partnership (PSP) Limited*	Dormant	2	65%	65%
Engage Lambeth Limited	Dormant	2	52%	52%
TOR2 Limited*	Waste, recycling collections and highways maintenance	2	80.01%	80.01%
Senturion Group Limited (in liquidation)*	Dormant	4	100%	100%
Kier Recycling CIC*	Collection and sale of recyclable materials	2	100%	100%
T J Brent Limited*	Non-trading holding company	2	100%	100%
T Cartledge Limited*	Dormant	2	100%	100%
AC Chesters & Son Limited*	Dormant	2	100%	100%
FDT (Holdings) Ltd*	Dormant	2	100%	100%
FDT Associates Ltd	Dormant	2	100%	100%
Engineered Products Limited (in liquidation)	Dormant	4	100%	100%

* indicates direct investment of the Company

¹ See list of registered office details below.

Kier Integrated Services Limited

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

15 Investments (continued)

Number Registered office address

- | | |
|---|---|
| 1 | Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, Scotland, G33 6HZ, United Kingdom |
| 2 | Tempsford Hall, Sandy, Bedfordshire, SG19 2BD, United Kingdom |
| 3 | Atria One, 144 Morrison Street, Edinburgh, EH3 8EB, United Kingdom |
| 4 | 1 More London Place, London, SE1 2AF, United Kingdom |

Associates

Cost or valuation

At 1 July 2017	6
At 30 June 2018	6

Carrying amount

At 30 June 2017 and 30 June 2018	6
----------------------------------	---

Details of the associates as at 30 June 2018 are as follows:

Name of associate	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2018	2017
Team Van Oord Limited *	Maintenance services in the utilities sector	Tempsford Hall, Sandy, Bedfordshire, SG19 2BD 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 (2017: 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 (2017: 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.

Kier Integrated Services Limited

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

16 Inventories

	2018 £ 000	2017 £ 000
Construction work in progress	3,067	6,471
Raw materials, consumables, finished goods and goods for resale	8,103	9,071
	<u>11,170</u>	<u>15,542</u>

The cost of inventories recognised as an expense in the year amounted to £42,022,000 (2017 - £71,018,000). This is included within cost of sales.

17 Trade and other receivables

	2018 £ 000	2017 £ 000
Trade receivables	97,697	95,948
Receivables from related parties	30,161	18,199
Prepayments	8,620	1,477
Other receivables	4,761	1,010
	<u>141,239</u>	<u>116,634</u>

18 Cash and cash equivalents

	2018 £ 000	2017 £ 000
Cash at bank	<u>96,358</u>	<u>93,761</u>

19 Trade and other payables

	2018 £ 000	2017 £ 000
Trade payables	99,620	104,215
Accrued expenses	41,937	35,943
Amounts due to related parties	55,025	51,795
Social security and other taxes	1,620	6,211
Other payables	6,745	876
Total trade and other payables	<u>204,947</u>	<u>199,040</u>

Kier Integrated Services Limited

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

19 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 £21,860,000 (2017 - £23,649,000), which are unsecured, interest-free and repayable on demand.
- loans from other group companies totalling £11,291,000 (2017 - £10,984,000), 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 £21,874,000 (2017 - £17,162,000), which are unsecured, interest-free and repayable on demand.

20 Loans and borrowings

	2018 £ 000	2017 £ 000
Non-current loans and borrowings		
HP and finance lease liabilities	125	770
Other borrowings	77,657	74,671
	<u>77,782</u>	<u>75,441</u>

Other borrowings consist of a loan from Kier Group plc, which is repayable on 30 June 2020. The loan is unsecured and interest is fixed at 4% per annum.

	2018 £ 000	2017 £ 000
Current loans and borrowings		
HP and finance lease liabilities	645	1,557

21 Obligations under leases and hire purchase contracts

Finance leases

	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2018			
Within one year	662	(17)	645
In two to five years	126	(1)	125
	<u>788</u>	<u>(18)</u>	<u>770</u>
	Minimum lease payments £ 000	Interest £ 000	Present value £ 000
2017			
Within one year	1,624	(67)	1,557
In two to five years	787	(17)	770
	<u>2,411</u>	<u>(84)</u>	<u>2,327</u>

Kier Integrated Services Limited

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

21 Obligations under leases and hire purchase contracts (continued)

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

	2018 £ 000	2017 £ 000
Current liabilities	645	1,557
Non-current liabilities	125	770
	<u>770</u>	<u>2,327</u>

Operating leases

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

	2018 £ 000	2017 £ 000
Within one year	1,524	4,353
In two to five years	2,754	7,836
In over five years	999	1,088
	<u>5,277</u>	<u>13,277</u>

The decrease in the total operating lease commitment from the prior year is due to a number of the Company's operating leases being assumed by Kier Fleet Services Limited during the year.

22 Provisions

	Onerous contracts £ 000	Total £ 000
At 1 July 2017	18,423	18,423
Increase in existing provisions	1,000	1,000
Provisions used	(10,272)	(10,272)
Increase due to passage of time or unwinding of discount	2,418	2,418
At 30 June 2018	<u>11,569</u>	<u>11,569</u>
Non-current liabilities	<u>6,178</u>	<u>6,178</u>
Current liabilities	<u>5,391</u>	<u>5,391</u>

During prior periods 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. The out-turn of these contracts is continually monitored. Following the review at 30 June 2018, the provision has been increased by £1,000,000.

Of the provision brought forward at 30 June 2017, £10,272,000 has been utilised in the year to offset losses incurred on the environmental services waste collection contracts. The contracts are due to be completed by March 2026.

Kier Integrated Services Limited

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

23 Called up share capital

Allotted, called up and fully paid shares

	No.	2018 £ 000	No.	2017 £ 000
Ordinary shares of £1 each	<u>1,500,000</u>	<u>1,500</u>	<u>1,500,000</u>	<u>1,500</u>

24 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.

The weighted average share price at date of exercise of share options exercised during the year was £12.38 (2017 - £11.66).

The options outstanding at 30 June 2018 had exercise prices ranging from £9.83 to £11.59 (2017 - £11.47 to £11.59) and a weighted average remaining contractual life of 1.7 years (2017 - 1.5 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 participated prior to the introduction of the CSAP, which replaced the LTIP awards for senior employees who were not Group board members. 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.

The weighted average share price at date of exercise of share options exercised during the year was £10.79 (2017 - £13.60).

Kier Integrated Services Limited

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

24 Share-based payments (continued)

The options outstanding at 30 June 2018 had exercise price of £Nil (2017 - £Nil) and a weighted average remaining contractual life of 1.0 years (2017 - 1.5 years).

Conditional Share Award Plan ('CSAP')

Scheme description

During the year, the Group established 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 2018 had an exercise price of £nil (2017 - n/a) and a weighted average remaining contractual life of 2.3 years (2017 - n/a).

25 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 2018 the net indebtedness of these companies for borrowings repayable on demand amounted to £Nil (2017 - £Nil).

The Company has given guarantees and indemnities in respect of performance bonds. At 30 June 2018, indemnities outstanding amounted to £4,685,000 (2017 - £1,685,000).

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.

26 Related party transactions

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.

Income and receivables from related parties

	Subsidiary £ 000
2018	
Receipt of services	1,211
Amounts receivable from related party	206
2017	
Receipt of services	1,543
Amounts receivable from related party	234

Kier Integrated Services Limited

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

26 Related party transactions (continued)

Expenditure with and payables to related parties

	Subsidiary £ 000
2018	
Rendering of services	32
Amounts payable to related party	11
	Subsidiary £ 000
2017	
Amounts payable to related party	10

Loans to related parties

	Subsidiary £ 000
2018	
Advanced	6,000
Repaid	(5,400)
At end of year	600
	Subsidiary £ 000
2017	
At start of year	210
Advanced	3,000
Repaid	(3,210)
Interest charged	9
Interest received	(9)
At end of year	-

Terms of loans to related parties

Kier Integrated Services Limited has made available a working capital loan facility to TOR2 Limited until 2020. TOR2 Limited can choose to draw down and repay loans at any time while the facility is available.

Loans from related parties

	Subsidiary £ 000
2018	
At start of the financial year	5,000
Advanced	10,000
Repaid	(10,000)
At end of the financial year	5,000
	Subsidiary £ 000
2017	
Advanced	10,000
Repaid	(5,000)
At end of the financial year	5,000

Kier Integrated Services Limited

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

26 Related party transactions (continued)

Terms of loans from related parties

During the prior year Kier Integrated Services Limited received a loan from TOR2 Limited of £10m, of which £5m was outstanding at the year end. This loan attracts no interest.

27 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.

Under the terms of a fully underwritten rights issue, ordinary shareholders of Kier Group plc on the register at the close of business on 30 November 2018 were offered 64,455,707 new ordinary shares of 1 pence each on the basis of 33 new ordinary shares for every existing 50 ordinary shares held. Dealing in the new shares, fully paid, will commence on 20 December 2018, and is expected to result in proceeds on issue of approximately £250m, net of expenses of £14m.

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:

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

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 Limited, incorporated in England and Wales.

The address of Kier Limited is:

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

The financial statements of Kier Limited are available from Companies House.