



Sustainable growth



Kier Group plc
Annual Report and
Accounts 2021

Total Group revenue¹

£3.3bn

2020: £3.5bn

Profit/(loss) from operations¹

£43.7m

2020: (£195.6)m

Earnings/(losses) per share^{1,4}

11.6p

2020: (85.3)p

Order book

£7.7bn

2020: £7.9bn

Net debt – average³

£(431.9)m

2020: (£435.6)m

Total Group revenue – excluding joint ventures¹

£3.3bn

2020: £3.4bn

Adjusted operating profit from operations^{1,2}

£100.3m

2020: £41.4m

Earnings per share – before adjusting items^{1,4}

25.0p

2020: 12.2p

Net cash/(debt) – 30 June³

£3.0m

2020: (£310.3)m

¹ See consolidated income statement on page 131.

² See note 5 to the consolidated financial statements.

³ See note 22 to the consolidated financial statements.

⁴ Earnings per share has been re-presented in the comparative information as a result of the equity raise which completed on 18 June 2021, see note 27 to the financial statements.



Go online to find out more at www.kier.co.uk

Our corporate website has key information covering our capabilities, markets, latest news, corporate responsibility and investor relations.

Contents

Strategic report

At a glance – our business	2
Creating value for the medium-term – key investment proposition	4
Chairman's statement	6
Chief Executive's review	8
A strategy to deliver growth	12
Operational review	16
Focused on market-leading positions – marketplace	22
Our business model	28
KPIs	30
Risk management matters	32
How we manage risk	34
Principal risks and uncertainties	37
TCFD statement	41
Financial review	42
Introduction to the Environmental, Social and Governance report	50
Building a sustainable future – Environment	52
Building for tomorrow – Social	62
Section 172 statement	69
Non-financial information statement	70

Governance

Corporate governance statement	
Chairman's introduction to governance	72
Board statements	74
Board leadership and company purpose and division of responsibilities	76
Board of Directors	78
Stakeholder engagement	83
Risk Management and Audit Committee report	86
Safety, Health and Environment Committee report	94
Nomination Committee report	96
Directors' remuneration report	
Annual statement of the Chair of the Remuneration Committee	98
Remuneration at a glance	101
Annual report on remuneration	102
Directors' Report	118
Statement of Directors' responsibilities	121

Financial statements

Independent auditors' report	122
Consolidated income statement	131
Consolidated statement of comprehensive income	132
Consolidated statement of changes in equity	133
Consolidated balance sheet	134
Consolidated cash flow statement	135
Notes to the consolidated financial statements	136
Principal operating subsidiaries and business units	197
Company balance sheet	204
Company statement of changes in equity	205
Notes to the Company financial statements	206

Other information

Financial record	211
Corporate information	212

Sustainable growth

The Group is focused on delivering its medium-term value creation plan.



Key investment proposition

Well-positioned to deliver the medium-term value creation plan through value accretive earnings-led business model.

[Read more on pages 4 and 5](#)



Our strategy

To be the UK's leading infrastructure services and construction company through disciplined growth, consistent delivery and cash generation.

[Read more on pages 12 to 15](#)



Marketplace

We have attractive market positions in growing markets and are aligned to the UK Government's investment priorities.

[Read more on pages 22 to 27](#)



ESG report

We have launched a new sustainability framework, 'Building for a Sustainable World', which reframed sustainability away from being an environmental specialism to being a strategic and business critical mindset.

[Read more on pages 50 to 68](#)

Our business

Kier provides specialist design and build capabilities to manage and integrate all aspects of a project. We are a supplier to the UK Government with key strengths in education, health and justice sectors. With attractive market shares in the public sector and established framework positions, we are well placed to benefit from increased UK Government spending.



Infrastructure Services

Comprises our Highways, Infrastructure and Utilities businesses. Infrastructure Services designs, constructs and maintains strategic and local road networks; repairs and maintains essential services to the water, energy, telecoms and rail sectors; and manages high-value construction and civil engineering projects across a number of sectors including nuclear, roads and rail such as HS2.

Revenue

£1.4bn

Adjusted operating profit

£65m

Maintains

27,000km
of road

Delivered

1.6 million
metres of full fibre broadband to over 158,000 properties

Maintains

2,000 miles
of rivers, canals, docks and reservoirs



Construction

Comprises our Regional Building, Strategic Projects, Kier Places (Housing Maintenance and Facilities Management), and International business. Kier is a leading UK national builder, providing project delivery for the public and private sectors across a number of sectors including education, health, defence and justice, such as HMP Five Wells in Wellingborough.

Revenue

£1.8bn

Adjusted operating profit

£57m

Maintains

72
schools, universities and colleges

Handed over

43
health projects

Provides services for

74,000
homes



Property

Our Property business invests and develops schemes and sites across the United Kingdom in markets including industrial, offices, and mixed-use residential schemes.

Revenue

£134m

Adjusted operating profit

£5.7m

Maintains

+4,000

residential units

Delivered accommodation for

2,727

students

Delivered

6 million ft²

of industrial space

Resilient and well-balanced Group underpins the medium-term value creation plan:

The Group is now focused on delivering its medium-term targets:

- › Revenue: £4.0bn to £4.5bn
- › Adjusted operating profit margin: c.3.5%
- › Cash conversion of operating profit: c.90%
- › Balance sheet: sustainable net cash position with capacity to invest
- › Dividend: sustainable dividend policy: c.3 x cover through the cycle.

For further information and to subscribe to our news alerts, please visit: www.kier.co.uk

Follow us on Twitter: [@kiergroup](https://twitter.com/kiergroup)

Connect with us on LinkedIn: [Kier Group](https://www.linkedin.com/company/kier-group)



Creating value for the medium-term

1

Value accretive earnings-led business model

- › Aligned to the UK Government's investment priorities and critical to the economic recovery of the UK
- › Integrator with design, project management, engineering, logistics, supply chain management and ongoing maintenance capabilities.

For more information on the business model see page 28

2

Attractive market positions

- › Attractive market positions in growing markets
- › Focused on UK markets in infrastructure services and construction
- › Delivery capability at both national and regional levels in the UK relationships.

For more information on our frameworks see pages 22 to 27

3

Strong order book underpinned by frameworks

- › Established position in core markets underpinned by long-term contracts and framework agreements
- › High-quality order book with long-term revenue streams
 - › Order book of £7.7bn
 - › Awarded places on long-term frameworks worth £112bn
 - › Contracts across a number of sectors including health, education and justice
- › Contracting with UK Government, regulated and blue-chip clients
- › Long-standing customer and supplier relationships.

For more information on our operating sectors see pages 16 to 21

4

Experienced management team

- › Proven track record of operational and financial delivery
- › Successfully executed an ambitious self-help programme and right-sized the business
- › Performance Excellence embedded in organisation to manage risk
- › Financial discipline in quoting new contracts and capital allocation
- › Continuing focus on business improvement efficiencies and managing costs.

For more information on the management team see page 9

5

Delivering sustainable returns

- › Medium-term value creation plan through a resilient and well-balanced business. The Group is now focused on delivering its medium-term targets:
 - › Adjusted operating profit margin: c.3.5%
 - › Cash conversion of operating profit: c.90%
 - › Balance sheet: sustainable net cash position with capacity to invest
 - › Dividend: sustainable dividend policy: c.3 x cover through the cycle
- › Delivery through organic growth
- › Continued disciplined approach to strategy.

For more information on our medium-term plan see page 9 and pages 12 to 15



Key highlights

FY21 adjusted operating profit

£100m

UK Government National
Infrastructure pipeline

£650bn

Awarded frameworks

£112bn

Annualised cost savings run-rate

c. £115m



Winning new business that balances risk and reward



MATTHEW LESTER
Chairman

Dear shareholder

Introduction

I would like to welcome you to Kier's FY21 Annual Report, my second as Chairman.

A great deal has happened since my first report last year. As I stated then, I joined the business because I believe in our refreshed purpose: 'To sustainably deliver infrastructure which is vital to the UK'. I believe we have the leadership team, under our Chief Executive, Andrew Davies, to deliver on our vision: 'To be the UK's leading infrastructure services and construction company'.

The Board appointed Andrew and I to address the strategic and governance issues that had developed at Kier, to put in place the foundations for the future of Kier and to deliver its potential. The foundational elements of the strategy set out in 2019 are now complete.

The key elements are highlighted below:

- › addressed the excess indebtedness of the Group through the disposal of the Living business and the recent capital raise;
- › extended the Group's revolving credit facility to January 2025; and
- › reduced the cost base and introduced a new risk framework so Kier can tender competitively for new business and earn an appropriate return.



To deliver on our potential, we will successfully deliver our contracts, supported by our risk management framework, Operating Framework and Performance Excellence processes, which are becoming embedded in the Group."

Strategic actions

As set out in the Chief Executive's review on pages 8 to 11, we have successfully executed the strategic actions set out in 2019 to deleverage, simplify the business and generate cash. This has resulted in a business which is financially stronger, disciplined and with attractive positions in growing infrastructure markets.

To deliver on our potential, we will successfully deliver our contracts, supported by our risk management framework, Operating Framework and Performance Excellence processes, which are becoming embedded in the Group, whilst maintaining operational safety standards.

The key focus for FY22 is the continued delivery of the medium-term value creation plan. Details of the plan are set out in the Chief Executive's review on page 9. We plan to grow the business through new business awards and increasing our order book. The Board continues to monitor and oversee performance in these areas, providing appropriate KPIs and linking these to Executive remuneration.

The Group's FY21 financial performance was ahead of the Board's expectations, despite the challenges presented by COVID-19. This has been a year where there has been an increased focus on financial flexibility. The Board would like to thank our Chief Financial Officer, Simon Kesterton, as well as the wider finance team for their contribution and commitment.

Our people

Kier is a people business. When I joined the Board we agreed we were going to ensure the Board increased the amount of time it spends on reviewing people matters and each Board member would spend time engaging with our colleagues across the business. Details of this are set out on page 85. This year the Board has focused on how well people feel they are managed as well as issues of diversity.

On behalf of the Board I would like to thank all of our people for the tremendous resilience and adaptability they have shown throughout this year.

Our stakeholders

For a large part of the year, the Group has been impacted by COVID-19. This has stretched our employees and resulted in additional costs. It is testament to the strength and ability of Andrew and his senior leadership team that they have delivered on all of the strategic objectives in uncertain times.

Therefore, on behalf of the Board, I would like to thank everyone who has contributed to Kier's business performance in FY21 including our supply chain partners, and especially our hard working employees. It is their dedication and focus on operational excellence that has enabled us to overcome challenges. Further information on our stakeholders and how we have engaged with them is provided on pages 83 and 84.

Environmental, Social and Governance (ESG)

In December 2020, Alison Atkinson joined the Board and was appointed as Chair of the Safety, Health and Environment Committee. She brings significant operational experience in large-scale national infrastructure and provides valuable insights in our chosen markets. We have continued as a Board to receive regular reports via the Chief Executive and via the SHE Committee on health and safety matters.

ESG issues are fundamental to Kier's future. For example, from September 2021 UK Government contracts worth more than £5m now require a commitment to and publicly published pathway to net zero carbon in line with the UK Government's Procurement Policy Note 06/21.

The impact we have on local communities and the positive legacy we leave are important considerations for customers awarding business. Recognising this and the increased focus on ESG from all of our stakeholders, we updated the Terms of Reference of the Committee for it to become the ESG Committee to reflect its wider remit, in addition to health and safety. Alison's report on the Committee is on pages 94 and 95 and we have also updated how we report on these matters in the Annual Report (see page 50).

Conclusion

We are grateful for the support of our existing as well as our new shareholders. The Board believes that:

- › Kier has the technical capability and customer relationships to deliver our vision. We deliver high-quality projects for our clients and customers and operate to high safety standards;
- › Kier has an experienced management team with a track record of delivery; and
- › Kier is well-placed to benefit from the increase in UK Government infrastructure investment commitments.

In FY22 the Board is focused on operational execution and ESG. Given the operational and financial performance of the Group in FY21, I am confident we can deliver the medium-term plan and position Kier to have a sustainably successful future.

We anticipate that we will be able to hold the AGM in-person this year. Details will be provided in the Notice of Annual General Meeting.

MATTHEW LESTER

Chairman

15 September 2021

Well-placed to drive sustainable growth underpinned by a strong balance sheet



ANDREW DAVIES
Chief Executive

Introduction

The Group delivered materially improved results in FY21 demonstrating the completion of our operational and financial strategic actions announced in June 2019: to simplify and focus the Group, improve the Group's cash generation and strengthen its balance sheet.

In FY21, we reported revenue of £3.3bn, a slight decrease of 4% on the prior year reflecting our ongoing exit of some non-core low margin and loss-making contracts, the successful completion of our motorway upgrade projects and the ongoing impact of the COVID-19 pandemic; partially offset by growth in our core businesses.

We generated strong adjusted operating profit of £100m (FY20: £41m). An increase in margin from 1.2% to 3.0% reflects our improved quality of earnings.

Free cash flow amounted to £93m (FY20: £(8)m). See page 30 for more information. We achieved a high level of cash generation as profits translated to cash and working capital normalised, enabling the Group to support business growth opportunities and deleveraging.

The Group's net cash position at 30 June 2021 of £3m (FY20: £(310)m) demonstrates the continued focus on cash and improved strength of the Group's balance sheet.

Average year-end net debt for FY21 was £432m and remained at a similar level to the prior year (FY20: £436m) due to the Group's receipt of the capital raise and Kier Living sale proceeds in the final months of the year.

Strategy update

The strong performance demonstrates that the simplification of the Group has been completed through the exit of non-core businesses and the adoption of an appropriate cost base. These actions delivered a savings run rate of c.£115m in FY21. The Performance Excellence culture has been embedded in the Group which will drive continuous improvement.

The successful capital raise, together with the recent sale of Kier Living, raised c.£350m of gross proceeds for the Group. This, together with the extension of the Group's 2017 RCF Facility to January 2025, provides Kier with the financial and operational flexibility to continue to pursue its strategic objectives within its chosen markets and will allow it to further enhance and capitalise on its position as a strategic partner to its customers.

The Group's strategy continues to be focused on:

- › UK Government, regulated industries and blue-chip customers;
- › operating in the business-to-business market; and
- › contracting through long-term frameworks.

Our core businesses are well-placed to benefit from the announced and committed UK Government spending plans to invest in infrastructure, decarbonisation and the post COVID-19 recovery. We have secured places on long-term frameworks through which much of the increased spend will be deployed.

This, combined with our nationwide coverage and project management expertise, is expected to drive our strategic actions of disciplined growth, consistent delivery and strong cash generation.

Medium-term value creation plan

The Group is now focused on delivering its medium-term targets:

- › Revenue: £4.0bn to £4.5bn
- › Adjusted operating profit margin: c.3.5%
- › Cash conversion of operating profit: c.90%
- › Balance sheet: sustainable net cash position with capacity to invest
- › Dividend: sustainable dividend policy: c.3 x cover through the cycle.

The Group aims to achieve these medium-term targets through:

- › volume growth and improved contract profitability;
- › continued management discipline;
- › deploying additional capital in the Property business; and
- › a recovery from COVID-19.

Performance Excellence

Kier now operates with a strong operational and financial risk management framework, which is fundamental to, and embedded into Kier's contract selection and delivery processes.

Kier's Performance Excellence culture introduced a consistent approach in how Kier develops and manages people, as well as processes, projects, costs and its way of working. The key tenets are as follows:

- › deliver projects on time and to budget, thereby meeting clients' and customers' expectations;
- › do not enter into contracts with unacceptable risk profiles;
- › introduce increased levels of resilience, and a consistency of approach, across the Group; and
- › win new business with attractive margins.

Kier launched a new Operating Framework in January 2020, which sets out the governance structure within which the Group now operates, including a new framework for the assessment of contract risk and new project reviews to ensure that the Group only enters into contracts with an acceptable and appropriate risk and financial reward profile.

Performance Excellence is also fundamental to the Group's approach to safety, with the aim of continuing to improve the overall safety performance.

Supply chain partners

We have also focused on maintaining and growing relationships with our key stakeholders, including our supply-chain. Many of our suppliers are long-term partners of the Group and we value their contribution.

We were pleased to report that, in our latest Duty to Report on Payment Practices and Reporting submission covering the period from 1 January 2021 to 30 June 2021, the Group's aggregate average payment days was 34 days (H1: 33 days) and the percentage of payments made to suppliers within 60 days was 89% (H1: 91%). For the year, our payment days have reduced from 38 to 34 days.

Executive Committee

Strengthened management team as the Group moves into the next phase of its strategy.



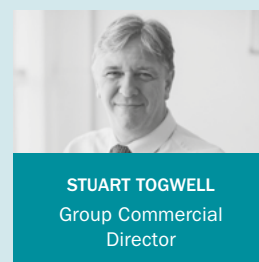
ANDREW DAVIES
Chief Executive



SIMON KESTERTON
Chief Financial Officer



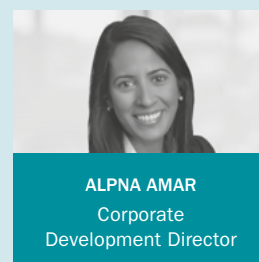
HELEN REDFERN
Group HR Director



STUART TOGWELL
Group Commercial Director



SOPHIE TIMMS
Corporate Affairs Director



ALPNA AMAR
Corporate Development Director



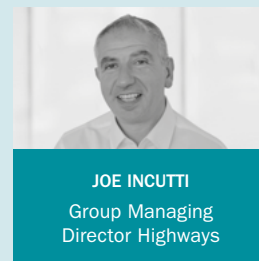
LIAM CUMMINS
Group Managing Director Construction



MARK PENGELLY
Group Managing Director Infrastructure



BARRY MCNICHOLAS
Group Managing Director Utilities



JOE INCUTTI
Group Managing Director Highways



LEIGH THOMAS
Group Managing Director Property

We are committed to further improvements in our payment practices and continue to work with both customers and suppliers to achieve this. We are fully committed to complying with the 30-day payment requirements for small and medium-sized firms.

Management changes

The Group has continued to strengthen its management team through the year with three new appointments to the Executive Committee:

- Alpha Amar, Corporate Development Director responsible for Strategy, Mergers & Acquisitions and Investor Relations;
- Leigh Thomas, Group Managing Director of our Property business; and
- Sophie Timms, Corporate Affairs Director responsible for UK Government relations and communications.

The refreshed team provides additional strength and perspectives as the Group moves into the next phase of its strategy.

Customers and winning new work

We remained focused on winning work through our long-standing client relationships and regionally based operations. The Group's order book at 30 June 2021 was £7.7bn (FY20: £7.9bn). We continue to win new high quality and profitable work.

During the year:

- Highways was appointed to deliver a c.£200m maintenance and management contract for TfL over eight years
- Infrastructure was appointed on the first stage of a £50m Enabling Civils Works programme on Phase 2a of HS2
- Utilities won a contract with Openreach to construct new broadband infrastructure in urban and rural areas in the west and south of England as well as Scotland, building on our current delivery of a similar contract in Wiltshire, Hampshire and Berkshire
- Construction won a place on the Ministry of Justice's £1bn New Prisons Programme and was also appointed to Lot 1 of the SCAPE next generation framework in England & Wales and Lot 2 of newly launched SCAPE Scotland.

Safety, Health and Environment ('SHE')

The safety, health and wellbeing of all of our employees and suppliers remain of paramount importance. We continue to work in line with Government Guidance in respect of COVID-19. With that, it is a matter of deep regret that an employee of one of our subcontractors suffered a fatality at one of our sites in our International business in UAE in August 2020. We worked with our subcontractor and fully co-operated with the local authority in their investigations to ensure all lessons learnt could be embedded in the Group's operations. Our sympathy goes out to the bereaved family.

The Group's 12-month rolling Accident Incident Rate ('AIR') of 105 and 12-month rolling All Accident Incident Rate ('AAIR') of 332 represents increases of c.21% and c.9% respectively compared to FY20. Whilst we recognise this is disappointing, we retain a solid safety record and maintain high safety standards in our industry. Health and safety remains our licence to operate and we continue to embed best practice and make conditions as safe as possible for our workforce. Looking at the long-term trend, the Group's AIR and AAIR have both decreased by c.50% compared to five years ago.

Environmental, Social and Governance ('ESG')

In July 2020, the Group launched a new sustainability framework 'Building for a Sustainable World', which reframed sustainability

away from being an environmental specialism to being a strategic and business critical mindset, balancing the need for environmental resilience, community resilience and profitability in day-to-day decision making.

The framework is governed through Sustainability Leadership Forums established at Group level and for each core business.

Environmental

Under this framework, the Group has committed to achieving net zero carbon across its own operations and supply chain by 2045. This supports the UK Government's commitment to net zero by 2050.

Our environmental sustainability approach is based on five pillars:

- 1. Pollution prevention:** prevent pollution from all operations within our control
- 2. Sustainable procurement:** take a lifecycle approach to the sourcing of materials, products and services
- 3. Net zero carbon:** achieve net zero carbon across our business operations by 2039 and supply chain by 2045
- 4. Zero avoidable waste:** produce no avoidable waste by 2035 and operations to be single use plastic-free by 2030
- 5. Biosphere protection:** maintain a healthy environment for future generations.

In FY21, the Group's businesses have concentrated on achieving their environmental framework reduction targets, which they have made considerable achievement on, as well as developing the Group's pathway to Net Zero, with interim targets, annual carbon budgets and limits on carbon offsetting.

The Group is launching carbon, water, waste and biodiversity KPIs for FY22, and seeking to employ innovation, new technology and best practices in pollution prevention.

We have won a number of 'Green Apple' awards for biodiversity and protected species enhancement. In partnership with Network Rail, Kier won a 'Sustainability & Environmental Excellence' award at the 2020 Rail Business Awards, for its work in the community. Kier was shortlisted for 'Most Innovative Use of Existing Tech' at the 2020 Water Industry Awards, as a result of its collaboration with Huber and South West Water to reduce chemical consumption and operating costs in the South West of the UK.

Social

The Group's work and actions directly and positively impact the communities it serves, and this in turn generates wider value for society. Our social sustainability framework is based on the following pillars:

- 1. Building for tomorrow:** developing partnerships to drive forward sustainability
- 2. Equality and diversity:** creating a diverse and inclusive business
- 3. Our social value and purpose:** tackling inequality at work and in communities
- 4. Employee wellbeing and engagement:** recognising the importance of safety, wellbeing and employee retention
- 5. Protecting human rights:** addressing the way we operate and conduct our business.

The Group has achieved progress on these objectives, including its graduate intake comprising 25% women in FY21 and achieving expenditure of 41% of revenue on a number of public sector frameworks with SMEs, as well as training 900 mental health first aiders.

The Group introduced a new severity-based metric to focus on wider health and safety performance in its operations. This follows an established track record on social sustainability matters. For example, the Group was the first construction company, as part of the Department of Education's Care Leaver Covenant, to support 16 to 25 year olds who had spent time as 'cared for children'.

Our Highways business and our HS2 joint venture are both Disability Confident employers. Our Highways business has also been a Disability Confident Leader since 2019, enabling people of all abilities to come into the workplace.

The Group's social framework commitments include developing and launching a new employee health and wellbeing strategy, as well as a Group Equality, Diversity and Inclusion strategy. This is driven by our recently appointed Group Head of Equality, Diversity and Inclusion. These efforts are supported by a focus on social purpose that aims to tackle inequality by giving individuals and communities the tools and opportunities to create brighter futures. For example, we had 649 apprentices participating on a Kier apprenticeship programme during the financial year ended 30 June 2021 which included 220 graduate apprentices.

Governance

Governance will remain a core component of the Group's approach to operations. The Group monitors governance matters through Annual BSI audits on ISO14001, 45001 & 9001 compliance, Integrated Operational Assurance Statement & processes and operating assurance statements. The Group's internal policy centre supports the Group's efforts in governance focus areas such as modern slavery, anti-bribery and corruption, data protection and whistleblowing matters.

Framework commitments on governance matters include continued participation in Sustainability Leadership Forums, ensuring Board oversight and cross-functional input, as well as implementation of project lifecycle management systems and processes, and continuous improvement of the Operational Assurance Statement processes and increased training requirements.

Our people

The Group's strong performance is attributable to the dedication of our c.10,800 employees across the UK. I would like to thank them for their commitment and contribution throughout the year.

Summary and outlook

The Group delivered a strong operational performance and materially improved results in FY21. We have completed the strategic actions set out in 2019 to simplify and focus the Group, improve cash generation and strengthen our balance sheet. The successful capital raise, the recent sale of Kier Living, and the extension of the Group's RCF facility provide Kier with the financial and operational flexibility to continue to pursue its strategic objectives within its chosen markets and will allow it to further enhance and capitalise on its position as a strategic partner to its customers.

Current trading is in line with our expectations and, notwithstanding potential inflationary pressures and the impact of increased national insurance contributions, our outlook for the current year remains unchanged. We are now focused on delivering our medium-term value creation plan by leveraging our attractive market positions, delivering our high-quality order book and fostering our long-term customer relationships and sector expertise.

ANDREW DAVIES

Chief Executive

15 September 2021

Performance Excellence

In order to introduce a consistent approach in how we develop and manage our people, processes, projects, costs and our future ways of working, we launched Performance Excellence in January 2020. This includes our new Operating Framework, which sets out the governance structure within which the Group operates. It provides clarity on key roles and responsibilities. The Operating Framework, together with the new Code of Conduct, guides the behaviours of our employees.



People

Our people deliver our projects. We will establish a consistent approach to performance management, career development and reward



Process

We will clearly define our policies and core business processes to make sure people are clear on what they need to do



Project execution

Project planning and execution are key to the success of our business. We will instil discipline and consistency in our project delivery



Cash management

We will define a set of actions and targets to manage our cash effectively across our business



The future of work

We will establish new ways of working for our people, that benefit our clients and support the communities we serve

Values



Collaborative

We enjoy what we do and work closely with clients and stakeholders to reach innovative solutions



Trusted

We deliver what we promise. We act safely and ethically and we care for the environment and the communities in which we work



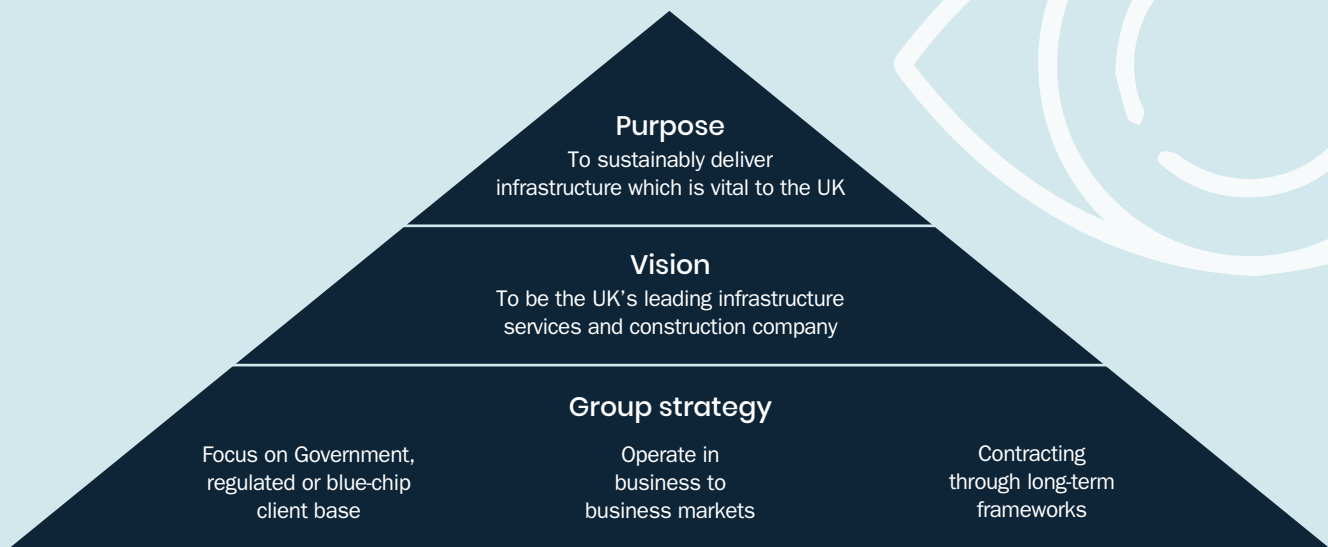
Focused

We are clear in our approach. We are disciplined and thorough in how we work and deliver for our clients and customers

A strategy to deliver growth

Our medium to long-term strategy focuses on delivering organic growth by leveraging our attractive market positions to deliver a well-balanced range of infrastructure and construction services to our customers along with sustainable profitability and cash flow generation.

Group strategic framework



Strategic actions

Disciplined growth



Consistent delivery



Generate cash

Kier proposition Key building blocks

An integrator and strategic partner

Innovation and digitisation

Breadth, depth and diversity of talent

A culture of Performance Excellence

Supply chain partnerships

Delivering sustainably

Our values



Collaborative



Trusted



Focused

The Group's vision is to be the UK's leading infrastructure services and construction company.

1

Leverage our attractive market positions in growing markets



- › Use the Group's strategically positioned and locally established businesses in the UK to position the business in its core markets.

Current position:

Highways

- › Market-leading position (#1 strategic highways and top 3 local highways)
- › Established relationships with strategic clients on long-term frameworks typically six to ten years.

Infrastructure

- › Delivery partner on the largest section of the HS2 Phase 1 – Europe's largest infrastructure project
- › Approximately 89% of contracts delivered under cost reimbursable contracts.

Utilities

- › Top 3 contractor in water and energy sectors
- › Fibre optic build partner to Top 3 UK digital infrastructure providers
- › More than 90% of revenue from long-term contracts and alliances.

Construction

- › Leading UK national builder
- › Strategic supplier to the Department for Education, NHS and MoJ.

Property

- › A leading developer in the commercial occupier space
- › Joint venture partner to Network Rail.

Forward focus:

- › Strongly positioned in significant and growing markets to take maximum advantage of market opportunities e.g. National Infrastructure Spending Programme.

2

Maintain and enhance long-term customer relationships



- › The Group's businesses operate under long-term frameworks, which require strong client relationships and sector expertise
- › Maintain and enhance the Group's relationship with the UK Government, regulated and blue-chip client base.

Our progress this year:

£7.7bn

Total order book at FY21

£112bn

Positions of frameworks for the UK Government and regulated entities

Forward focus:

- › Continue to align the Group to our customers' needs
- › Win new business with low-risk profiles and attractive margins
- › Continue to deliver projects on time and to budget, thereby meeting clients' and customers' expectations.

3 Resilient and well-balanced business



- › Continue to grow in infrastructure services and construction markets
- › Expand Kier Property with a capital disciplined approach
- › Continue to develop existing maintenance and renewals capabilities through Kier Places
 - › Kier Places specialises in housing maintenance, environmental waste and facilities management services
- › Continue to leverage internal mechanical & engineering technical knowledge and support.

Our progress this year:

- › Disciplined growth in infrastructure and construction businesses
- › Kier Property designated as a core business. Measured capital allocation. Focused on disciplined growth within mixed-use commercial and residential developments in both the private and public sector – less speculative projects
- › Kier Places restructuring and re-focus complete having exited certain commercial contracts.

Forward focus:

- › Infrastructure and Construction – focus on market opportunities driven by UK Government spending
- › Kier Property – focus on employing capital efficiently and delivering appropriate returns
- › Kier Places – continue to align offering with UK Government spend focus e.g. £2bn Green Homes Grant and £1bn Building Safety Fund.

4 Deliver revenue growth, profitability and cash generation



- › Leverage human capital, competitive cost structure and customer relationships to grow revenue, adjusted operating profit and cash flow generation
- › Continue to use Performance Excellence.

Our progress this year:

£100m

Adjusted operating profit in FY21

Successfully executed the Group's strategic actions to simplify the business and strengthen the balance sheet and improve cash generation

£93m

Free cash flow in FY21 (FY20: £(8)m)

Successfully managed costs despite an unprecedented pandemic

£110m

Successful sale of Kier Living

£241m

Capital raise

Focused on sustainable earnings and cash

c.£115m

Annualised cost savings run-rate

Forward focus:

- › Continue to grow the business organically.



“Great connectivity is more important than ever, whether it’s to support home working, to keep in touch with family and friends, or to access digital services like health and education. Full fibre broadband enables this in spades, and we’re ramping up our own efforts to build our new network to as many homes and businesses across the UK as we can.

This is one of the largest infrastructure projects in the UK today, and if we’re going to deliver the enormous social, environmental and economic benefits that full fibre can bring, it’s important we can build the new network efficiently, safely and without compromising on quality.

We’re delighted to be partnering with Kier because they’ll be pivotal in helping us achieve those aims for our customers and for the UK as a whole.”

KEVIN MURPHY

MD for Fibre and Network Delivery at Openreach

Strategy in action

Delivering next generation broadband across the UK

The challenge

Through the National Infrastructure Strategy, the UK Government has set a target to deliver gigabit-capable broadband to 85% of the country by 2025. The target also supports the UK Government’s agenda of ‘levelling up’ the UK by improving mobile connectivity and reducing the digital divide. The demand for broadband services has also increased in light of the pandemic with many of the UK population working from home.

The solution

Kier has been a key provider of telecoms infrastructure for 20 years with the strength and depth of skill to support the roll-out of broadband infrastructure. Kier has secured major contracts with the UK’s three largest broadband providers: Openreach, Virgin Media and CityFibre. As a trusted delivery partner, Kier is building full fibre networks in urban and rural areas, including hard to reach homes, in Scotland, the South West, South East and central regions of England.

The impact

Over the past 12 months, Kier has mobilised its teams and to date has installed over 100,000 kilometres of full fibre broadband to over 150,000 homes and businesses to support post-pandemic hybrid working and digital connectivity.

Through this pipeline of work, Kier is also providing wider economic benefits in the areas in which it works. It has grown its direct workforce across these contracts by 45% and invested in local communities by working with hundreds of local supply chain partners. It has also set up a training academy at its base in Basingstoke, offering people the chance to join the telecoms industry. Since December 2020, the academy has provided opportunities for over 50 apprentices, 35 graduates, a number of prison leavers as well as those who have previously served with the armed forces.

Infrastructure Services

Significant increase in adjusted operating profit as we move towards the maintenance and service based segment.

Highlights

Key contract wins:

- › **Infrastructure** – appointed to deliver a major programme of highway and utility works on HS2 Phase 2a
- › **Highways** – c.£200m eight-year Transport for London (TfL) Maintenance and Management contract
- › **Utilities** – new contract with Openreach to construct broadband infrastructure in urban and rural areas in the west and south of England as well as Scotland

87%

of orders secured for FY22

Operational highlights

Revenue (£m)

2020	1,506
2021	1,422

Adjusted operating profit¹ (£m)

2020	31.3
2021	65.3

Adjusted operating margin¹

2020	2.1%
2021	4.6%

Reported operating profit (£m)

2020	9.4
2021	41.4

Order book (£bn)

2020	4.6
2021	4.4

¹ Stated before adjusting items and amortisation of acquired intangible assets.

The Infrastructure Services segment comprises the Highways, Infrastructure and Utilities businesses.

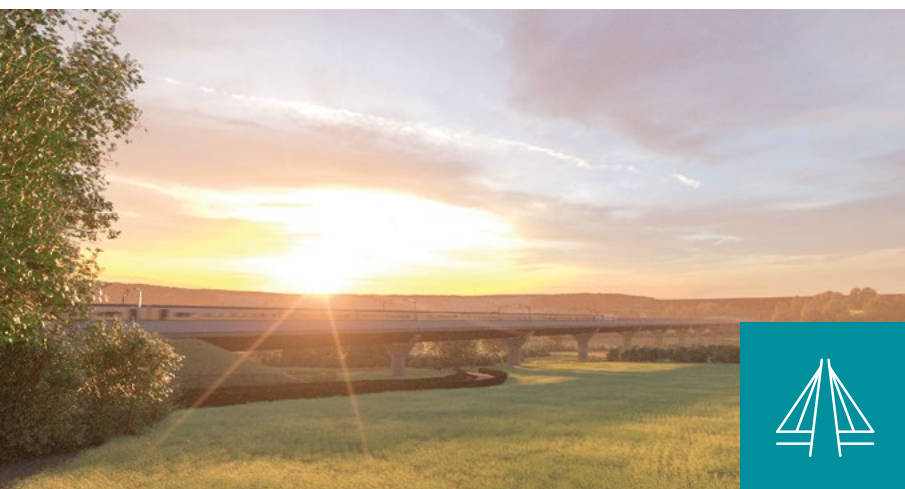
Segmental revenue was 6% lower than last year primarily due to the successful handover of the M20, M23 and M6 motorway upgrade projects during the second half of FY21 which more than offset the start of work for HS2. The focus on higher margin maintenance and service based work, together with reductions in COVID-19 related costs, resulted in an increase in adjusted operating profit by 109% to £65m.

The Infrastructure business delivers major and complex infrastructure and civil engineering projects, including the HS2 project in joint venture with Eiffage, Ferrovial and BAM Nuttall, the A13 dualling project and the Luton DART rail system in joint venture with VolkerFitzpatrick. Revenue and adjusted operating profit were above the comparative period, primarily due to ramp-up of capital works on HS2, as well as the reduction in both COVID-19 related volume declines and the additional costs incurred during the period of the pandemic.

The Highways business builds and maintains roads for National Highways and a number of district and county councils. During the year, three of our motorway upgrade projects, the M20, M23 and M6, were delivered on schedule and we continued to successfully deliver a fourth. The business continued to win work at both national and local levels. The business was appointed to deliver a c.£200m maintenance and management contract for TfL Road Tunnels and Pumping Stations ('TAPS'). The new contract commenced in April 2021 and will run for eight years.

The Utilities business delivers long-term contracts providing construction and maintenance services to the water, energy, rail and telecommunications sectors. Changes made to the business are starting to deliver increased year over year revenue and profitability. There is also a positive timing impact as successful contract wins have been mobilised and are now in their delivery phase, especially in the broadband rollout market. Utilities has also benefited from an increase in volumes and reduced costs as it recovers from COVID-19. Utilities has continued to win work including a contract with Openreach to construct new broadband infrastructure in urban and rural areas in the south and west of England and in Scotland. This complements similar contracts in other regions. The pipeline for attractive, high-quality, long-term infrastructure work remains strong.

HS2 – earthworks



Heave monitoring site

The challenge

As part of the EKFB joint venture, Kier is delivering civil engineering works across an 80km section of the new high-speed rail link between the Chiltern Tunnel and Long Itchington Wood in Warwickshire. The project is one of Europe's biggest earthmoving projects for a generation and on the EKFB section alone there will be around 30 million cubic metres of excavation.

The solution

In order to meet the challenge, the team worked with Finning®, distributor of Caterpillar® and Trimble® products in the UK, to develop the bespoke Digital Graphical Earthworks Reporting ('DIGGER') system which is powered by Finning's CUBIQ™ Construction analytics platform and supported by professional services. DIGGER pulls together data from a variety of sources, such as drones and construction equipment, and integrates them to create tools the project team can use in near-real time.

The impact

The system has been trialled at EKFB's heave monitoring site, where ground conditions will be monitored as the dig progresses. DIGGER brings more than 15 systems together and can record progress, productivity, planned and unplanned downtime and also any environmental impacts, such as NOx and carbon emissions. The system not only provides real-time information to inform decisions leading to improved operational efficiency, but it also reduces the risk associated with plant operations through the use of proximity sensors and geospatial data, promoting overall improvements in safety on site.



The project is one of Europe's biggest earthmoving projects for a generation."

Construction

The business continued to win contracts such as being awarded a place on the new £1bn New Prisons Programme.

The Construction segment comprises Regional Building, Strategic Projects, Kier Places (including Housing Maintenance, Facilities Management and Environmental Services) as well as our International business. Construction has national coverage delivering schools, hospitals, defence, custodial facilities and amenities centres for local authorities, councils and the private sector.

Revenue decreased 4% due primarily to the impact of procurement delays resulting from COVID-19 and the implementation of our strategy to exit non-core businesses. Our focus on margin and the realisation of the savings resulting from the cost saving programme, as well as a significant reduction in costs related to the pandemic, resulted in a 30% increase in adjusted operating profit. Adjusting items include costs related to the restructuring of our Southern regional business following our strategic review.

The business continued to win contracts such as being awarded a place on the new £1bn New Prisons Programme. We are well placed to benefit from the £5bn 'New Deal' opportunities announced by the Government which focus on areas such as health, education and custodial services, where the Group has specialist expertise.

Our Construction business has started to see a few deferrals in project awards caused by procurement delays. In addition, whilst we recognise the risk of cost inflation, we plan to mitigate this with our customer and supply agreements.

Our Strategic Projects business continued to work on the £275m new Five Wells prison at Wellingborough, which utilises innovative modular building techniques allowing a more standardised approach and integrates digital tools to drive efficiencies in the design, construction and operation of the facility, which is expected to be handed over before the end of 2021.

The newly rebranded Kier Places business specialises in working in occupied properties both residential and offices, delivering maintenance, repairs, fire safety and compliance services. The exit from several contracts, as well as the exit from the commercial facilities management market, resulted in revenue declining compared to the prior year. However, the changes to the business model and its concentration on core markets resulted in the business significantly improving its profitability. It continues to win new work such as the contract to deliver an extensive range of fire remedial works for Hammersmith and Fulham Council.

The UAE-based International business is now focused on managing its cost base and projects in line with the continued weakness in its markets.

Highlights

Awarded places on frameworks worth up to

£11.5bn

lasting typically four years

Appointed to the Ministry of Justice's ('MoJ')

£1bn

New Prisons Programme

80%

of orders secured for FY22

Margin improvement

due to realisation of cost saving programme and improved productivity

Operational highlights

Revenue (£m)

2020	1,835
2021	1,769

Adjusted operating profit¹ (£m)

2020	43.6
2021	56.7

Adjusted operating margin¹

2020	2.4%
2021	3.2%

Reported operating (loss)/profit (£m)

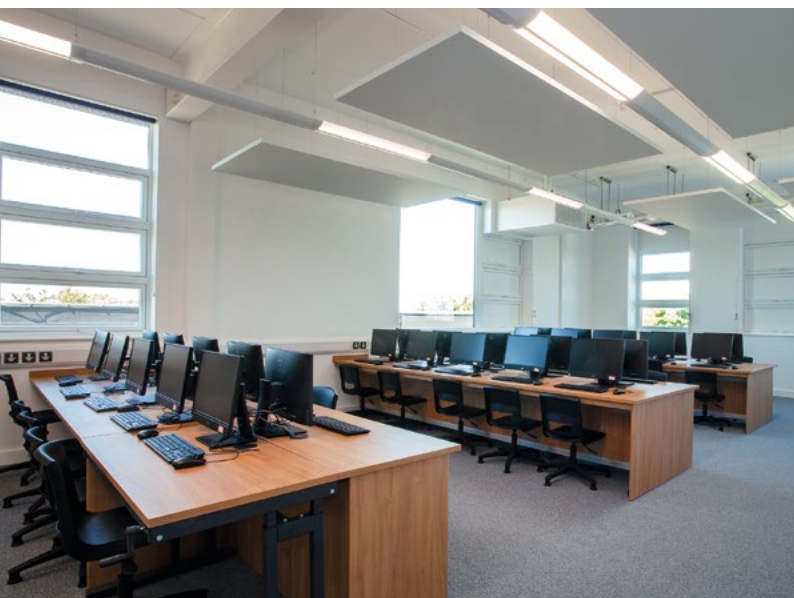
2020	(52.3)
2021	40.7

Order book (£bn)

2020	3.3
2021	3.3

¹ Stated before adjusting items and amortisation of acquired intangible assets.

Hartsdown Academy



The challenge

Hartsdown Academy wanted to create enhanced library, science and music facilities as well as establish team working environments to allow collaboration between different departments. As well as this, the school wanted to provide a better learning environment for pupils with special educational needs and disabilities ('SEND'). This particularly focused on pupils with hearing disabilities and those that rely on computers to help with writing.

The solution

As part of phase 1, we created updated facilities, including teaching and communal spaces, SEND rooms, a new library and new ICT rooms. Phase 2 included modular build, which adjoined the existing sports hall building and provided additional facilities including more ICT rooms and music rooms.

As well as this, the mechanical and electrical design supports sustainability by utilising a combination of natural ventilation, air handling units and heat recovery units. The new state-of-the-art communication system supports SEND pupils through the installation of a hearing loop system, which is a specialised sound system for those with hearing aids.

The impact

The project was completed in a live environment, without disturbing pupils' studies. The school now has quality learning facilities in the disciplines it wanted to enhance, as well as providing high-specification facilities to support its SEND pupils, ensuring that these pupils have specialised learning spaces required for a successful education. Pupils who require computer equipment for writing are now able to easily access it.



The mechanical and electrical design supports sustainability by utilising a combination of natural ventilation, air handling units and heat recovery units.”

Property

Limited investment in the year. Focus on disciplined capital allocation.

The Property business develops primarily mixed-use commercial and residential schemes and sites across the UK.

Revenue increased 8% compared to the prior year as the easing of COVID-19 related problems resulted in an increased number of assets being sold during the second half of FY21.

Adjusted operating profit increased from £(3.2)m to £5.7m due to increased completions, prior year comparatives reflecting COVID-19 costs and £3.9m from the alignment of accounting treatment for forward funding-arrangements which, although increased adjusted operating profit, had no impact on statutory profit. The business has had limited investment over the last two years. The focus is to slowly expand the Property business through select investments and a disciplined capital approach.

Arena Central



The challenge

Arena Central was being developed to provide a truly mixed-use location in the heart of Birmingham city centre, to meet the city's demand for high-quality office space and city centre residential accommodation. The major redevelopment included 10 buildings consisting of offices, shops, bars, cafés, restaurants and a hotel.

The solution

As part of a major redevelopment in Birmingham's city centre, Kier Property secured the purchase of Arena Central Developments in 2019. This significant regeneration project provided Kier Property with the rights to develop the remaining four phases of the site's existing master plan. The first of these four new phases was the prelet and forward funded 240,000 sq ft office building at 3 Arena Central to HMRC which was successfully completed in November 2020. The remaining elements of the development include a further three office buildings, totalling 526,009ft², which will be delivered over the next five to seven years.

The impact

Since the development started in 2016, seven buildings have been completed and occupiers like HMRC, HSBC and Holiday Inn have all located within this truly mixed-use development in the heart of Birmingham city centre. As part of the next phases of development, Arena Central will continue to provide Birmingham city centre with additional office space, employment and residential opportunities as we see England's second biggest city continue to grow.

Highlights

- › Our Solum Regeneration joint venture (between Kier Property and Network Rail) has sold the last two phases of its Twickenham Gateway development scheme
- › We secured a prelet to Leonardo hotels on a 35-year lease for a 284-bed hotel on our Pall Mall development in Liverpool

Completed

240,000 ft²

development at Arena Central

Operational highlights

Revenue (£m)

2020	124
2021	134

Adjusted operating (loss)/profit (£m)¹

2020	(3.2)
2021	5.7

Adjusted operating margin¹

2020	(2.6)%
2021	4.3%

Reported operating (loss)/profit (£m)

2020	(21.7)
2021	2.3

¹ Stated before adjusting items and amortisation of acquired intangible assets.



“ The major redevelopment included 10 buildings consisting of offices, shops, bars, cafés, restaurants and a hotel.”

Corporate

The Corporate segment comprises the costs of the Group's central functions. We continued to see year over year reductions in central costs, including further savings in FY21 as the implementation of the Group's cost reduction programme continues to deliver benefits.

Operational highlights

Adjusted operating loss (£m)¹

2020	(30.3)
2021	(27.4)

Reported operating loss (£m)

2020	(131.0)
2021	(40.7)

Kier Living

The results for Kier Living for the period are classified as discontinued. Kier Living's adjusted operating profit for the period of ownership was £5.3m (FY20: loss £(5.4)m), as the smaller reorganised business recovered from COVID-19 related losses.

On 16 April 2021, the Group announced that it had entered into an agreement for the sale of Kier Living. The transaction was approved by shareholders at a General Meeting held on 7 May 2021 and was completed on 28 May 2021. The sale resulted in a loss on disposal of £(12.1)m.

¹ Stated before adjusting items and amortisation of acquired intangible assets.

Focused on market-leading positions

National Infrastructure pipeline
commitment of £650bn.



Kier's position

Kier's scale, operational delivery capability at both national and regional levels, integrator model and long-term relationships should enable Kier to take maximum advantage of the significant and committed UK Government and regulated industry spend over the medium and long term.



Highways



Road Investment Strategy 2 £27bn

Market opportunity:

- › Road Investment Strategy 2 ('RIS2'): £27bn investment in England's strategic roads from 2020-2025
 - › Represents 60% increase on RIS1 from 2015-2020
- › Project Speed and the new Acceleration Unit launched by Department for Transport ('DfT') in August 2020
- › Local authorities' requirement for investment in local authority roads increasing
- › Northern England investment and connectivity to Scotland
- › Climate change – managing change on roads.

Kier's market positioning:

- › Market-leading position (#1 strategic highways and top 3 local highways)
- › Integrator with unique in-house design and build solution
- › Highways national assets valued at over £500bn. Asset based driving ongoing demand for renewal, enhancement and maintenance
- › Over two thirds of revenues undertaken on a low commercial risk cost-sensitive basis
- › Established relationships with strategic clients on long-term frameworks typically 6-10 years.

Infrastructure

“Infrastructure underpins the economy. Transport, digital, energy and utility networks are vital for jobs, businesses and economic growth. But they also have a profound impact on people's daily lives.”



HS2 Phases 2a and 2b cost range

£37bn–53bn

Market opportunity:

- › UK Government committed to investment as part of the National Infrastructure Strategy
- › £650bn pipeline of which £100bn committed in FY21-FY22
- › £37bn-£53bn forecast cost ranges for HS2 Phases 2a and 2b
- › £22bn available through Infrastructure Bank to fund or guarantee future schemes
- › £20bn new nuclear build
- › c.£50bn committed for CP6
- › £4bn cross-departmental 'Levelling-Up' fund.

Kier's market positioning:

- › Manages a number of high-value construction and civil engineering projects
- › Significant projects largely executed through joint ventures
- › Delivery partner on the largest section of HS2 Phase 1 – Europe's largest infrastructure project
- › Repeat business relationships >10 years for customers in our chosen sectors
- › Approx. 89% of contracts delivered under cost reimbursable contracts
- › Commercial and operational synergies through working with Highways and Utilities businesses.

Utilities



Market opportunity

Regulated utilities expenditure set to increase due to underinvestment in prior years. Sector split between high growth and stable segments

Water

Stable growth from regulator-permitted investments in services and infrastructure to facilitate improved net zero outcomes e.g. leakage detection services and capital works focused on environmental mandates

Water: England & Wales AMP7¹: £50bn by 2024
Water: NI PC21²: £2.8bn by 2027

£50bn

Water – AMP7

Telecoms

UK Government facilitating fibre roll-out across the UK. Customers investing in sector and infrastructure funds injecting new capital

Telecoms – Fibre/5G by 2027: £32bn commitment by private and public sectors

£32bn

Telecoms – Fibre/5G

Other

Continued investment in the energy/power distribution sector and electric vehicle ('EV') market set to grow

Power distribution: GB RIIO³-ED1: £17bn by 2023
Gas distribution: GII0 – GD2: £30bn by 2026
Power NI: NI RP 6⁴: £657m by 2024
Gas distribution NI: GD17⁵: £225m by 2023

90%

of revenues from long-term contracts and alliances

Kier's market positioning:

- › Top 3 provider of infrastructure services (typically repairs, maintenance and capital projects) to the water, energy and telecoms sectors
- › Long-standing clients and regulated by authorities e.g. Ofwat, Ofcom and Ofgem
- › More than 90% of revenues from long-term contracts and alliances
- › Majority of contracts delivered under cost reimbursable contracts.

¹ AMP: Asset Management Plan

² NI PC21: Northern Ireland Price Control 2021 – 2027

³ RIIO: Ofgem Pricing Framework

⁴ NI RP 6: Northern Ireland Regulatory Price Control for Electricity 2017 – 2024)

⁵ GD17: Gas Distribution Price Control 2017

Construction



Market opportunity

UK Government spending focused on schools, hospitals, justice and defence

Investment weighted towards public sector markets with UK Government announcing capital spending in key sectors: £1.5bn Education, £3.7bn Health, £4bn (over four years) on Justice and £7.9bn (over 10 years) on Defence.

Education

- › 10-year school re-building programme
- › First 50 school projects announced valued at £1bn
- › £1.5bn further education programme announced.

£1.5bn

Further education spending

Health

- › £1.5bn additional funding for building and maintaining hospitals
- › £3.7bn New Hospitals Programme to be delivered by 2025.

£3.7bn

For New Hospitals Programme

Justice

- › 18,000 new prison places required
- › £4bn committed over four years
- › c.£450m per annum of estate maintenance.

£4bn

Committed over 4 years

Defence

- › £4.3bn 10-year Defence Estate Optimisation programme announced
- › £1.6bn 10-year Clyde Programme
- › c.£2bn USVF Estate.

£7.9bn

Capital expenditure over 10 years

Kier's market positioning:

- › Leading UK national builder
- › Kier operates across the UK in attractive and growing sectors including health, education, justice and defence
- › **Education** – delivered almost £5bn of primary, secondary and tertiary facilities in the past 15 years
- › **Health** – long-standing collaborative relationship with the health authorities across England, Scotland and Wales. Expertise and ability to understand the demands of the NHS and UK health sector
- › **Justice** – 14-year relationship with the Ministry of Justice ('MoJ') delivering over £600m of new build and refurbishment projects across all categories of prisons and courts
- › **Defence** – key partner on national and regional Defence Infrastructure Organisation ('DIO') frameworks and delivering a number of defence projects.

Commercial



Market opportunity:

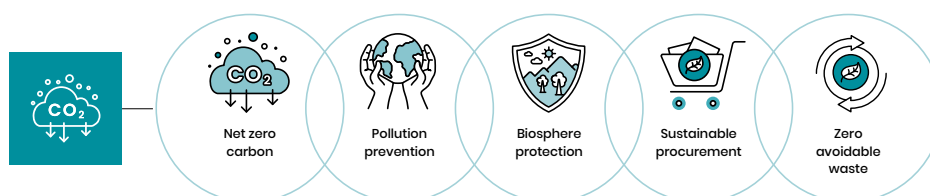
Public and private sector co-investment

- › Increase in refurbishment for agile working practices due to COVID-19
- › Regional focus
- › London market.

Kier's market positioning:

- › Experienced in delivering mixed-used projects in London including redevelopment and regeneration schemes
- › Focused on blue-chip customer base.

Net zero infrastructure



10 point plan for a green industrial revolution

For more information on our sustainability framework see page 54

Market opportunity:

UK-leading net zero pledge

- › UK-leading net zero 2050 pledge – commitment to reduce greenhouse gas emissions and deliver on carbon budget pledges
- › 10-point plan for a green industrial revolution
- › Greener buildings, public transport and carbon capture.

Kier's market positioning:

- › Carbon impact: net zero carbon emissions Scopes 1, 2 & 3 by 2045
- › Driving sustainability through the businesses
- › Pollution prevention: annual target for avoidable compliance is zero. Restore and replenish environmental areas affected by unavailable compliance issues
- › Responsible sourcing and supply chain: no harm to the environment from the resources it uses
- › Zero waste: produce no avoidable waste by 2035. Operations will be single-use plastic-free by 2030
- › Protection of habitats and resources: promote a healthy environment for future generations.

Property



£900m

for local areas including developments

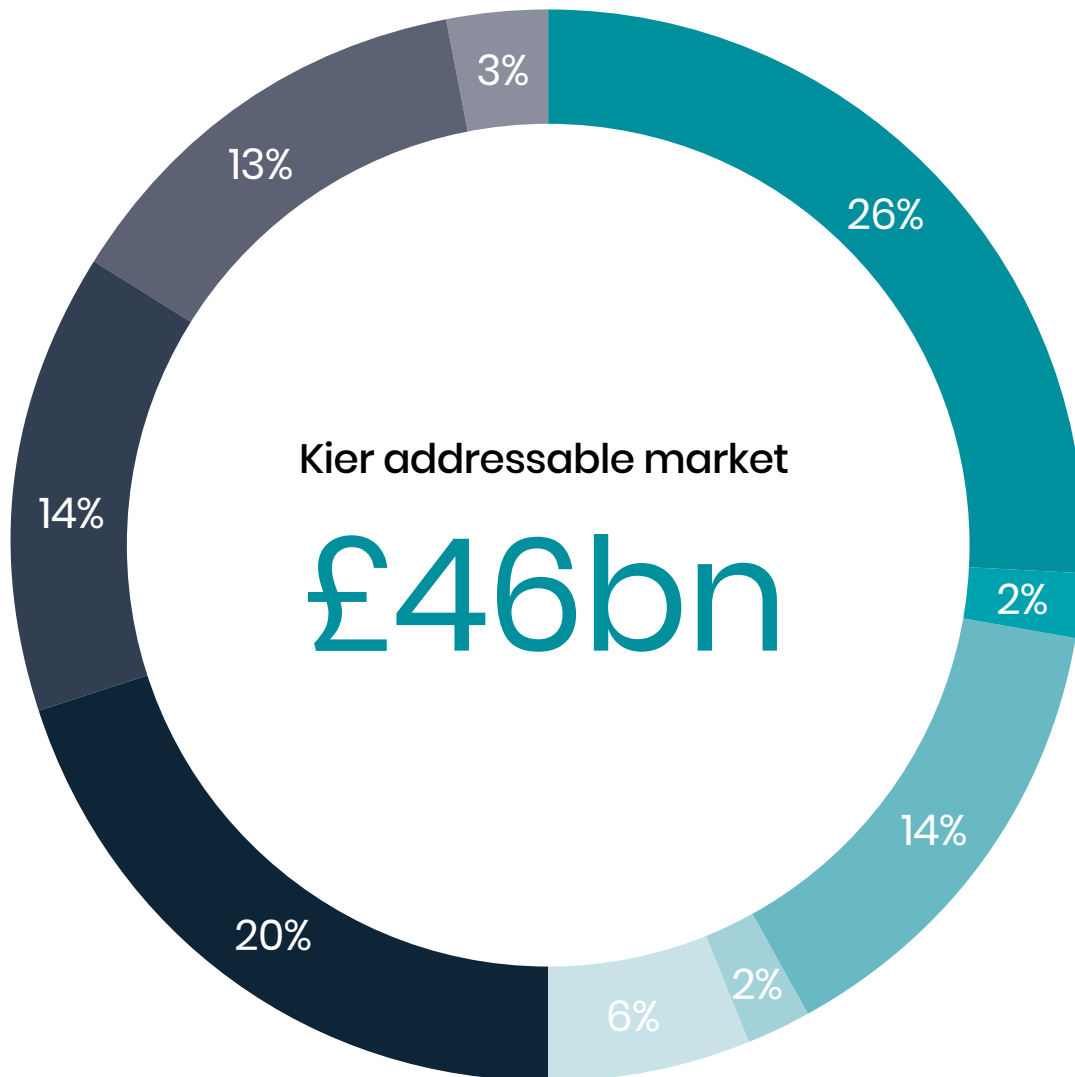
Market opportunity:

- › 'Levelling up' agenda – increased spending in previously underinvested areas. Relocation of parts of the civil service
- › Hub programme – £900m for local areas to invest in priority infrastructure projects in England including development and regeneration of key local sites
- › Urban regeneration – £96m allocated to accelerate investment in town centres and repurposing high streets.

Kier's market positioning:

- › Property business invests and develops schemes and sites across the UK
- › Focus on mixed-use commercial and residential developments delivered through joint ventures/partnerships in both private and public sector
- › Commercial and operational synergies with other Kier businesses.

Addressable market



Infrastructure Services



£23bn

Infrastructure Other New	20%
Infrastructure Other Repairs, Renewals and Maintenance	14%
Roads New	13%
Roads Repairs, Renewals and Maintenance	3%

Construction



£23bn

Commercial	26%
Industrial	2%
Public Non Housing	14%
Repairs and Maintenance Private	2%
Repairs and Maintenance Public	6%



UK construction market

The overall UK construction market (excluding housing) is estimated to be worth £126bn in 2021. Current CPA market forecasts show year-on-year growth in our chosen sectors (6% in 2022 and 2% in 2023) underpinned by committed UK Government spend in the infrastructure and construction markets.

Addressable market

The Group's addressable market is estimated at £23bn for Infrastructure Services and £23bn for Construction. The Group serves this market through its three segments: Infrastructure Services, Construction and Property.

The Construction segment delivers for both the public and private sectors through local bases and offers national coverage for our clients and customers. The key sectors served include education, health, justice and defence.

The Infrastructure Services segment is focused upon three main markets: Highways, Infrastructure and Utilities. The Highways business designs, constructs and maintains strategic and local authority road networks. It provides its customers with services including the delivery of emergency response and reactive maintenance as well as critical infrastructure.

Our Infrastructure business provides high-value and complex construction and civil engineering projects for sectors including nuclear, roads and rail. It often uses joint ventures to execute these large long-term projects, bringing specialist expertise to complement Kier's skills.

Our Utilities business provides the repair and maintenance of essential services to the water, energy, telecoms and rail sectors. Its customers are largely regulated by UK Government agencies including Ofwat for water and Ofgem for gas and power.

Our Property segment delivers commercial, mixed-use and residential developments by purchasing land or existing properties, developing them and then subsequently selling them on, allowing the capital to be returned or recycled. Its synergies with the Group are gained through existing Group relationships and it therefore serves the Infrastructure Services and Construction market.

The importance of frameworks

During the year our business has won places on health and local authority frameworks worth up to £11.5bn and in addition several existing frameworks were extended by up to 12 months. Over 61% of our FY21 revenue was derived from projects delivered under framework agreements. Total Group framework award values amounted to £112bn (OJEU values).

In our Infrastructure Services division we have places on seven national and 21 regional frameworks with a total advertised OJEU value of £17bn.

In Construction we have been awarded places on 15 national and 35 regional frameworks worth £95bn. Our positions on frameworks underpin the work we have undertaken across our core markets and we are well-placed to benefit from recent Government announcements.

Delivering value through our differentiators

Our resources and opportunities

Financial strength

Investment

Strong, resilient and flexible balance sheet following the capital raise, sale of Kier Living and extension of borrowing facilities, providing capacity to invest.

See page 4 for more information



Human capital

Workforce

Competent and skilled people at all levels of the organisation. Senior management with substantial knowledge of, and experience in, the industries in which we operate. Long-standing client relationships and knowledge of the business and operations.

See page 9 for more information



Market opportunities

UK National Infrastructure spending

In the National Infrastructure Strategy, published in November 2020, the UK Government has committed to address the historical under-investment in critical infrastructure. It recently published a pipeline of £650bn infrastructure projects, focusing on roads, railways, communications, schools, hospitals and power networks.

See page 23 for more information

COVID-19 recovery

In light of COVID-19, the UK Government committed to accelerate £5bn of capital investment projects.

Net zero

Infrastructure investment is fundamental to delivering the UK Government's net zero emissions by 2050, a target set out in the Prime Minister's Ten Point Plan for a Green Industrial Revolution.

See page 57 for more information



How we create value



Attractive market positions

- › **Attractive positions** – attractive positions in our markets where we operate with scale, operational capability at both national and regional levels as well as project delivery including processes and expertise
- › **Long-established** – UK infrastructure services and construction with approximately 100 years of experience
- › **Strategic partner to UK Government** – focused on areas which are aligned to the UK Government's investment priorities. Strategic partner to the UK Government for schools, hospitals and prisons.



Project management

- › **Integrator** – significant experience as a 'systems integrator', increasingly required on complex projects, such as Crossrail and HS2
- › **Project control** – qualified commercial and procurement employees providing control of projects and contracts from inception to completion with cost certainty and value-added expertise to customers
- › **Quality** – quality assurance through our qualified quality control team.



Customer relationships

- › **Customers** – Focused on UK Government, regulated or blue-chip client base
- › **Model** – operating in business to business markets
- › **Frameworks** – contracting through long-term framework agreements creating visibility. Awarded places on long-term frameworks worth up to £112bn, across a number of sectors including, health, education and justice, providing the business with steady revenue streams.



Performance Excellence

- › **Operating framework** – embedded a culture of 'Performance Excellence' and operational improvement. Introduced an Operating Framework focused on people, processes, projects and costs, underpinned by a 'Back to basics' approach. Resulting in the delivery of high-quality projects on time and to budget consistently across the business
- › **Safety** – Performance Excellence is also fundamental to safety, with the aim of continuing to improve the overall safety performance as the Group has done over the past five years.

See page 11 for more information



Design and engineering capability

- › **Technical** – preparing technical designs and undertaking supporting work for capital projects, through our team of designers
 - › **Modern Methods of Construction ('MMC')** – utilising MMC to maximise efficiency in timing and labour costs
- › **Build** – design support ranging from initial scheme feasibility to building phase
- › **Support** – structural and civil engineering designers providing technical advice and support across our network of UK offices.



Sustainability

- › **Environmental** – committed to achieving net zero carbon across its own operations and supply chain by 2045. Focused on achieving carbon, waste and water targets
- › **Social** – social framework commitment to improving employee equality, diversity and inclusion as well as a focus on employee health and wellbeing
- › **Governance** – focus on areas such as modern slavery, anti-bribery and corruption, data protection and whistle blowing. Continuous improvement on project lifecycle management, operational standards and training.

See page 51 for more information

The value we create for our stakeholders



Shareholders

- › **Shareholder returns** – we aim to generate long-term sustainable shareholder returns through the execution of our strategy
- › **Dividend** – our dividend policy targets dividend cover of around 3 x cover across the cycle.



Customers

- › **Delivering work** – we aim to deliver projects on time and to budget using our workforce, design and project management skills. We aim to meet our clients' and customers' expectations including pricing and scope of work with a risk-disciplined approach
- › **Support** – as a strategic supplier to UK Government, our ESG activities support our customer on their path to achieving net zero emissions by 2050.



Employees

- › **Human capital** – we seek to ensure that our workforce of 10,800 people located across the UK is skilled, motivated and competitively compensated
- › **Safety** – safety, health and wellbeing of all our employees is our number one priority, and it remains of paramount importance as the Group continues to work in line with UK Government guidance in light of COVID-19
- › **Equality, diversity and inclusion** – we have policies and programmes in place to provide an inclusive work environment.
 - › We are committed to developing a Group Equality, Diversity and Inclusion strategy to be driven by our recently appointed Group Head of Equality, Diversity and Inclusion. We are focused on social purpose that aims to tackle inequality.



Supply chain partners

- › **Collaboration** – we work to build strong, collaborative relationships with our suppliers including co-operative design and development activities
- › **High standards** – we support our suppliers to meet high standards of compliance expected by us and our customers
- › **Integrity** – aim to operate with integrity with our suppliers.



Communities/society

- › **Communities** – we are focused on social sustainability by ensuring our actions directly and positively impact the communities we serve, and this in turn generates wider value for society. We benefit many communities through the creation of employment and advancement opportunities, for example:
 - › **Graduates** – graduate intake comprising 25% women in FY21
 - › **Apprentices** – 649 apprentices participating on an apprenticeship programme during FY21
 - › **Training** – training 900 mental health first aiders
 - › **All abilities** – our Highways business and our HS2 joint venture are both Disability Confident employers, enabling people of all abilities to come into the workplace
 - › **SMEs** – 41% expenditure on a number of public sector frameworks with SMEs in FY21.



Environmental

- › **Carbon** – 27% decrease in our carbon intensity for business operations compared with FY20 (24% decrease against our FY19 baseline)
- › **Waste** – 22% year-over-year reduction in the volume of non-hazardous construction waste per £100k revenue in FY21
- › **Water** – Transitional year with baseline re-set using FY21 data. FY21 baseline for cost of water as a percentage of operational spend was 0.03%.

Turn to pages 30 and 31 for more information on our key performance indicators

Financial

Total Group revenue¹ (bn)

£3.3bn



Revenue for the Group from continuing operations including joint ventures

Group revenue has slightly decreased due to exiting non-core low margin facilities management and environmental services contracts, successful completion of Smart motorways projects and COVID-19 volumes offset by growth in core businesses.

Adjusted operating profit^{1,2} (m)

£100.3m



Operating profit for the year before adjusting items

Group profit before adjusting items has increased significantly reflecting improved quality of earnings, the fruition of management cost actions and reduced COVID related costs.

Earnings per share – before adjusting items^{1,3,5} (p)

25.0p



Earnings per share for the year generated from operations before adjusting items

Group earnings per share before adjusting items has increased materially due to the increase in adjusted operating profits.

Order book (bn)

£7.7bn



Secured and probable future contract revenue not currently recognised in the financial statements

Order book has remained robust as the Group continues to win new high-quality and profitable work through long-standing client relationships and regionally based operations.

Net cash/(debt) – 30 June⁴ (m)

£3.0m



Net cash/(debt) at the year end date

The Group moved from a net debt position at FY20 to a positive net cash position at FY21 following the cash received from the sale of Kier Living and the capital raise.

Net debt – average⁴ (m)

£(431.9)m



Average monthly net debt for the year

Average net debt has slightly reduced with the benefit of the receipt of the capital raise and Kier Living sale proceeds arriving in the final months of the year.

Cash – free cash flow⁴ (m)

£92.6m



Alternative cash flow measure to evaluate what is available for distribution

The Group has delivered a strong free cash flow underpinned by profitable contracts. This includes a c.£50m one-off benefit for new construction industry VAT rules and includes the repayment of £61m of VAT and payroll taxes deferred from FY20 as a result of COVID-19.

- ¹ See consolidated income statement on page 131.
- ² See note 5 to the consolidated financial statements.
- ³ See note 12 to the consolidated financial statements.
- ⁴ See note 22 to the consolidated financial statements.
- ⁵ Earnings per share has been re-presented in the comparative information as a result of the equity raise which completed on 18 June 2021, see note 27 to the financial statements.

Non-financial

Safety – Group Accident Incidence Rate ('AIR')

105



Achieve year-on-year improvement in the Group AIR. Remain below the Health and Safety Executive benchmark for the UK

The Group's 12-month rolling Accident Incident Rate ('AIR') of 105 and 12-month rolling All Accident Incident Rate ('AAIR') of 332 represent increases of c.21% and c.9% respectively compared to FY20. Whilst we recognise this is disappointing, we retain a solid safety record and maintain high safety standards in our industry. Health and safety remains our licence to operate and we continue to embed best practice and make conditions as safe as possible for our workforce. Looking at the long-term trend, the Group's AIR and AAIR have both decreased by c.50% compared to five years ago.

Payment performance

34 days



Maintain a good relationship with supply chain partners

We have continued to work proactively with our supply chain partners and are pleased to report that average days to pay has improved from 38 days at 30 June 2020 to 34 days at 30 June 2021. All registered entities have also been reinstated to the Prompt Payment Code.

Customer experience

91%



Deliver a high level of customer satisfaction which is key to supporting sustainable long-term growth across our markets and client base

We have increased the number of surveys undertaken with clients this year across the Group. This has resulted in a 91% rate of customer satisfaction, clearly demonstrating the value we add to our clients and customers.

Environmental responsibility

17.2 tCO₂e



Reduce our consumption of energy and greenhouse gas emissions per £ revenue

We have achieved a 27% decrease in our carbon intensity for business operations compared with FY20, and a 24% decrease against our FY19 baseline. We will continue to build on these successful reductions in line with our pathway to net zero and widen our reporting scope to include value chain carbon emissions. We will continue to incorporate low carbon technologies, materials and ways of working into our operations, and continue to work with our supply chain to trial new technologies for a more sustainable future.

Employee engagement

59%



Achieve continuous improvement scores in employee engagement surveys

We have continued with our quarterly pulse surveys to record employee engagement and themes have included a focus on new ways of working and wellbeing. These give us the ability to get regular feedback on topics that are important to our workforce and our emotional engagement index is 59% for the last 12 months which is above the UK average of 50%.

[Turn to the ESG section on pages 50 to 68 for more information](#)

Risk management matters



STUART TOGWELL
GROUP COMMERCIAL DIRECTOR

Our refreshed risk management framework enables the effective management and reporting of risk.

Kier's risk management framework places risk management into the heart of our operational delivery at every stage of our project life cycle. Kier's breadth of capability from design to facilities management allows us to draw on our own experience and skill to successfully identify and manage risks within our sectors for all of our stakeholders.

Effective, embedded risk management will support ongoing delivery of our commitment to stakeholders by striking the right balance between risk and opportunity. FY21 saw a proactive year of focus on further operationalising risk management through performance lifecycle management and our culture of Performance Excellence.

Furthermore, our network of Commercial Directors continued to build our risk aware culture of resilience through our contracting process by identifying, evaluating and managing risks. Commercial Directors also own and deliver the process of mitigating and managing identified risks to best effect and undertaking a process of self-assessment to drive continuous improvement. Focus for the coming year is on our risk recording systems and the dynamic sharing of risk information, registers and lessons learnt.

Various improvements have in turn been made to the corporate risk register with key risk indicators ('KRIs') also being enhanced to provide further context, reporting and monitoring. Risk appetite continues to be a key focus with more work planned for this year in terms of qualitative appetite statements to further contextualise Kier's principal risks and uncertainties.

Our initiatives

2020

Risk management and internal control framework refresh

The Kier Group risk management framework ('RMF') sets out how Kier identifies and manages risks and risk events throughout the organisation. In 2021 the risk framework methodology has been enhanced to introduce new items such as the 'Risk and Audit Universe', aligning risk and audit in terms of the Kier business processes landscape and speed of risk. Alongside this we have made further key refinements to action plan criteria along with further developments to control self-assessment. Key risk indicators have also evolved and continue to be monitored. To complement the risk lifecycle, Kier operates a plan, implement, measure and learn process. This continuous activity enables an evolution of controls and mitigation actions to be regularly assessed and improved upon via learnings throughout the cycle.

This year Deloitte carried out a review of the effectiveness of Kier's risk management and internal controls, and we are steadily working through the road map of actions that followed the review. While we are still relatively early into the roadmap, the above steps have already evidenced solid progress. Kier continues to utilise an effective three lines of defence operating model with clear distinguishable accountability between the business teams, risk and internal audit.

Hinkley Point EDF Energy

Lifecycle risk management

Hinkley is a major earthworks contract forming part of the construction of the UK's first nuclear power station for a generation. Kier has been involved since 2012 moving c.6m m³ of excavated material, pouring circa 50 thousand m³ of concrete in a 0.75km long sea wall, 20km of roads and 40km of service networks. The sheer scale of this project and the requirements of the nuclear industry around control and quality require the highest standards of risk management and control both internally and externally in collaboration with the client.



2021

2022

Emerging risks, our approach to high-impact, low-probability Black Swan events

To determine the risks of greatest concern, we re-cast 'threat to world' issues as 'threat to our business' issues in a three-stage process: threat diagnosis, impact evaluation and decision support. The emerging risks process has been approved by the Risk Management and Audit Committee ('RMAc') and will be undertaken at least annually with results presented to the Risk Committee.

Control Self Assessment ('CSA') implementation

To further strengthen the Group's internal control environment and corporate governance structure, a set of core financial controls have been defined across the Group. Execution of these key controls was self-assessed by business management and a sample subjected to an initial independent validation which indicated good compliance of controls performance across the Group. Going forward, CSA will be performed annually by business management and validated by Kier Group Internal Audit.

Enhancements to the corporate risk register

Considerable progress has been made to the format of the corporate risk register this year with development of the self-assessment of controls effectiveness and revised controls criteria and further work has been done to raise the importance of effective action planning with target dates and clear accountabilities.

Forward looking priorities

1. Risk appetite ('RA') statements

– Operationalising risk appetite – development of business stream specific RA statements and a refreshed methodology.

2. KRIs – KRIs for all principle risks and uncertainties ('PRUs') with appetite thresholds to monitor and report.

3. Timely preparatory action – Response to the outputs of the BEIS consultation (The Department of Business, Energy and Industrial Strategy ('BEIS'))'s consultation on 'restoring trust in audit and corporate governance') – the forming of a working group to consider the likely impact on the Kier audit approach whilst monitoring the final outputs of the consultation and its likely requirements for an enhanced control environment.

Stage 1

The challenge

Working 'in the ground' at Hinkley carries its own inherent risks in terms of geology, ground water control and the impact of meteorological conditions.

In addition, there are a variety of civil engineering activities from bulk excavation, material handling and treatment and reinforced concrete works that need to be considered in the context of a highly regulated nuclear site, where works have been executed at depths of up to 35m below ground level.

Stage 2

The solution

At the outset therefore, the agreement of terms and conditions and a framework contract providing a level of flexibility allowing the client to manage an evolving work scope was a necessity to facilitate effective control of the works.

The project team developed proposals to meet client requirements – and it is the internal review of these proposals to ensure appropriate risk and reward which is of fundamental importance prior to the execution of any contract.

The Group Operating Framework, the Project Lifecycle Management Process, Group Commercial Standards and Delegated Authorities form the bed rock of these controls. In this context the Infrastructure Business Stream has developed its own detailed Gateway Process such that each opportunity is reviewed and authorised in line with Delegated Authorities before any works proceed.

Stage 3

The impact

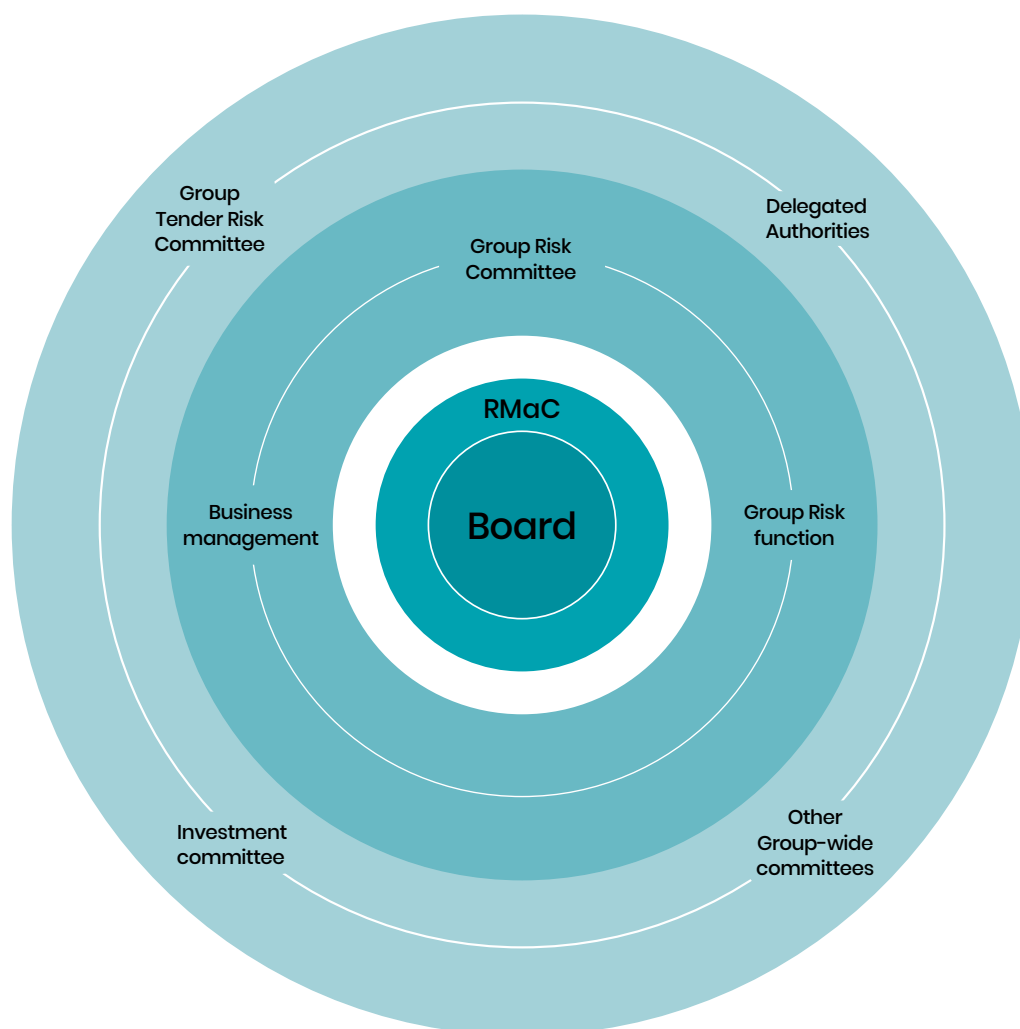
Hinkley, for the reasons identified, is a challenging environment where flexibility for the client in terms of the scope of work to be executed is of paramount importance. The implementation of Kier control processes has allowed the execution of a framework contract, where terms are clearly understood, empowering the project team to agree monthly task orders with the client.

Importantly however, in addition to its role in the ongoing monthly review of project performance, the Infrastructure Business Stream continues through operation of its Gateway controls to consider and approve the execution of any work where there may be additional or varied operational risks beyond those envisaged in the framework agreement. This process has facilitated the ongoing and successful delivery of a regularly varying scope of work.

How we manage risk

Effective management of risk is integral to the delivery of the Group's strategic objectives.

Our risk management framework



Board

Overall responsibility for risk management across the Group, and oversight of the internal control framework. Assesses the emerging and principal risks facing the Group and its appetite with respect to those risks. Sets the Group's culture relating to risk management.

Risk Management and Audit Committee ('RMaC')

Responsibility for overseeing the management of the Group's systems of risk management and internal control.

Group Risk Committee

Acts as the link between the business and the Board/the RMaC with respect to risk management.

Business management

Identifies and assesses risk. Oversees the management of risk within the business.

Group Risk function

Consolidates risk information, reports across the Group and monitors risks and response plans.

Investment Committee

Reviews risks relating to the Group's investment decisions.

Other Group-wide committees

E.g. Group Information Security Board, Group Sustainability Leadership Forum.

Group Tender Risk Committee

Provides independent review and risk mitigation recommendations in relation to trading opportunities and tenders undertaken by all Group businesses.

Group Delegated Authorities

The Board of Directors of Kier Group delegates the responsibility for the day-to-day management of Kier and its subsidiaries to the plc Executive Directors and other members of Kier Group's management, as set out in the Group's Delegated Authorities.

Introduction

The Group recognises that a robust approach to the management of risk is fundamental to the Group's operations. During the year, the Group has continued to develop its systems of risk management and internal controls. The Group Risk Committee introduced in 2020 continues to operate effectively and combined with the Risk Management and Audit Committee ensures key 2nd line risk and audit governance within our three lines of defence model.

Oversight

The Board has overall responsibility for the way in which the Group manages risk and for the Group's systems of risk management and internal controls. The Board determines its appetite with respect to the Group's principal risks (which are summarised on pages 37 to 40 and, via the RMaC, assesses the effectiveness of the systems of risk management and internal control which are designed to mitigate the impact of those risks on the Group's operations. Please see the Risk Management and Audit Committee report on pages 86 to 93 for further information. The Board reviews risk as part of its strategy development sessions.

Risk management process

The Group Commercial Director ensures that the risk management principles of the Group are operationally reflected within the business streams and manages the process to allow the Group Risk Committee to consider both top down and bottom up risks.

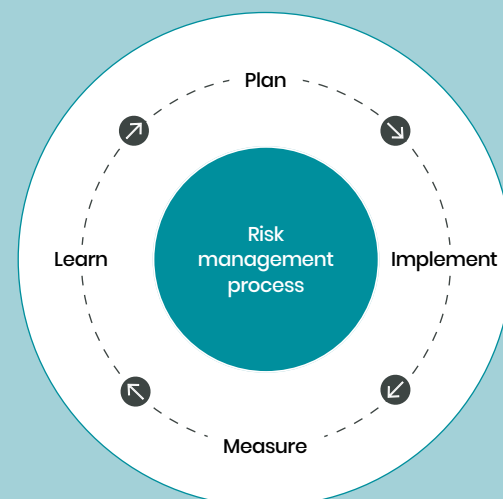
Risk assessment and risk appetite

During the year, the Board once again undertook a review of the Group's emerging and principal risks, together with its appetite for the nature and extent of the risks that the Group is willing and able to take so as to inform the parameters within which the business is authorised to operate. Agreed risk appetite levels have been established for each of the Kier PRUs with regular management and reporting of these levels throughout the year.

Risk appetite tolerance and threshold metrics are now in place to monitor performance and further enable the Group to proactively manage risks and their associated controls and mitigating action plans.

Next steps include further articulation and refinement of the Group risk appetite in the form of qualitative risk appetite statements – this will aid with identifying clear targets and standards for each PRU and these will be supported by the risk appetite levels and also various reporting metrics, from which they can be reported and monitored against.

Risk management process



Top down

Board

As part of the Board's overall responsibility for risk, there is a structured flow of risk information for its notification and approval. The Board is provided with regular updates on risk management of critical contracts, ensuring effective awareness of risk management actions.

Group Risk Team

Provides risk challenge and support to the first line teams. Provides a Group-wide risk update on principal and emerging risks. Provides assurance of risk management framework and policy. Consolidates risk information and reports across the Group and monitors risk and response plans.

Group Commercial

Responsible for risk processes, controls and risk systems. Risk management frameworks and risk policy. Corporate risk register and Risk Committee.

Internal Audit Team

Internal Audit supports the Group through independent review and objective assessment, and by promoting and supporting continuous improvement in the quality of business operations, the control environment and overall risk management.

Business management

Commercial Directors are on point for identifying, assessing, managing and mitigating current and emerging risks and are pivotal in ensuring the right cultures and behaviours are demonstrated throughout business streams.

Bottom up

Risk recording system

The Group uses a series of methods to review its operations to assist in the early identification of both risk and opportunities and then a systematic approach to the recording and management of them. Risk and audit work support each other by reviewing the effectiveness of any changes made within operations to mitigate risks or benefit from our opportunities.

Plan

Managing objectives and planning to achieve them

Implement

Operational planning, implementation and control

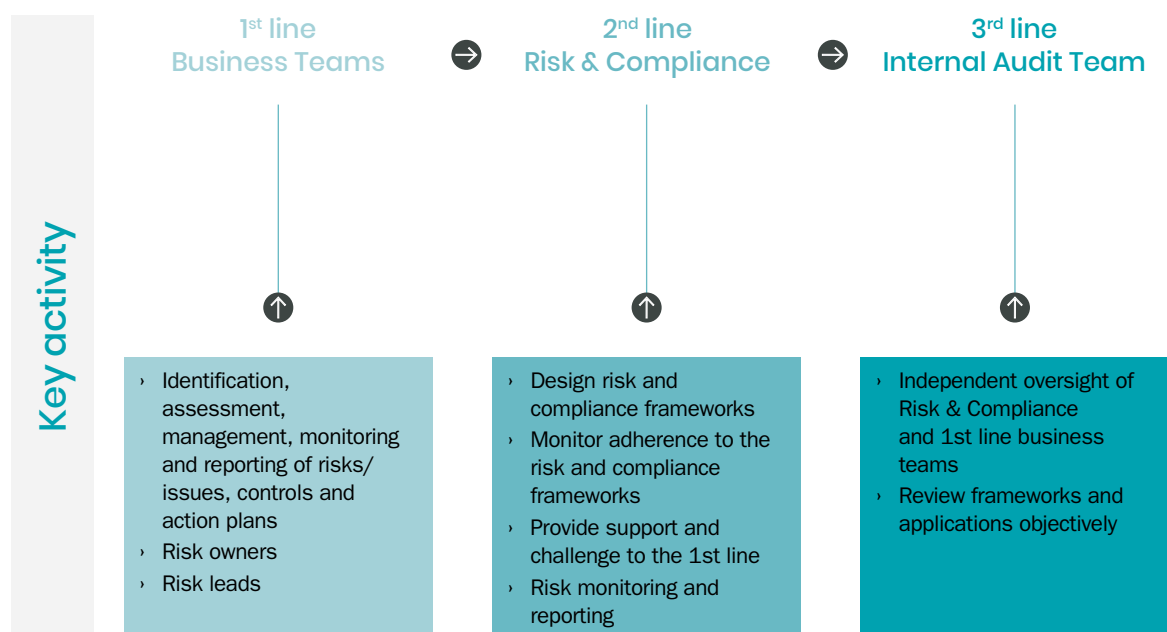
Measure

Monitoring, measurement, analysis, evaluation, audit and review

Learn

Non-conformity, corrective action and continual improvement

Three lines of defence operating model



Areas of focus

In the 2020 Annual Report we highlighted areas of focus for the Group's risk management ('RM') to be developed during the 2021 financial year.

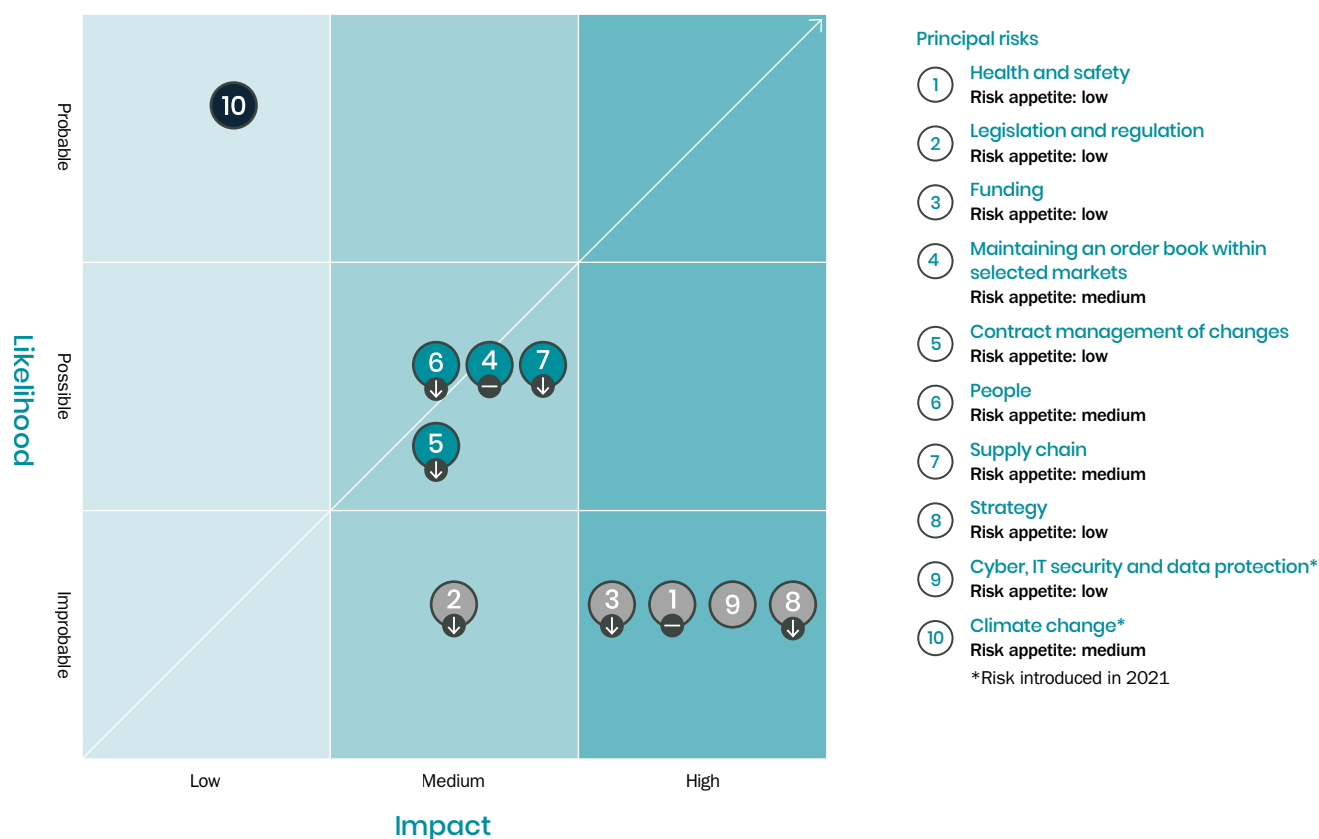
Area of focus	Examples of progress made in 2021
Further aligning the Group's RM framework with the Operating Framework	Created a revised risk management framework aligned to project life cycle management.
Developing key risk indicators ('KRIs')	KRIs established for each PRU and managed and monitored by the Risk Committee.
A review of the internal controls framework	Embedding of key financial controls matrix and controls self-assessment process at BU level.
A review of risks faced by the Group which are considered likely to have high impact but a low likelihood	Review of high-impact low-likelihood risks undertaken formally annually by the Risk Committee and quarterly by the Group Risk function.
Further strengthen the Group's systems of internal control and risk management based on the three lines of defence model	Enhancements to the management of the corporate risk register ('CRR') including self-assessment of effectiveness of mitigating actions with implementation of new methodology for rating criteria and time-bound actions.

Principal areas of focus for 2022

- › High-impact low-likelihood risk assessment and analysis
- › Integrating the three lines of defence into new risk structure under Commercial
- › Responding to BEIS consultation on restoring audit trust and corporate governance.

Our principal risks

The following chart sets out the Group's principal risks and the Board's appetite with respect to each such risk:



Impact

- Low** – the exposure is well understood, with a relatively low cost of mitigation
- Medium** – risk may be tolerated provided that the benefits are considered to outweigh the costs
- High** – risk threatens the viability of the Group or there is a reasonable likelihood of danger to people or material reputational damage

Likelihood

- Improbable** – the risk is not foreseen as likely to occur or may occur in exceptional circumstances
- Possible** – a relatively infrequent occurrence for the Group
- Probable** – a relatively frequent occurrence for the Group

Comparison with 2020

- ↑ Increase**
- ↓ Reduction**
- No change**

Introduction

During the year, the Board identified the principal risks and uncertainties facing the Group and assessed its appetite with respect to such risks. Understanding the Group's risk profile, and how the Group manages risk, is central to the Board's decision-making process. The following section contains information about the potential impact of the principal risks identified by the Board, the plans to mitigate them and the threats created by them.

The Board's assessment of risk

The Board's assessment of the principal risks and uncertainties facing the Group; their potential impact; the mitigating actions proposed in respect of such risks; their change in risk profile during the year (in terms of either impact or likelihood); and an indication of the Board's risk appetite with respect to each such risk are summarised below. The risks are not listed in any order of priority. Not all the potential impacts of the risks or mitigating actions are listed.

Changes to the principal risks and uncertainties

The principal risks and uncertainties listed in the 2020 Annual Report have been reviewed to assess their continued relevance in 2021. Throughout the year, risk appetite attaching to the principal risks and uncertainties was assessed (via the monitoring of corporate risk register and risk appetite discussions undertaken by the Risk Committee). There were no changes to the assessment of risk appetite. Last year's principal risks and uncertainties remain relevant and two new principal risks have been added.

New principal risks	Reason for change
Climate change	Kier is committed to working together with its partners to reduce the impact of climate change (please see our ESG report on pages 50 to 68). Our rating on the risk chart above reflects our Executive Committee's view of the possible impact on our current business strategy.
Cyber, IT security and data protection	These risks have been identified as principal to the Group's continued cyber resilience.

Principal risks and uncertainties

Principal risk	Description	Impact/actions
1 Health and safety Level of impact  Board risk appetite  Risk owner Group SHEA Director	Failure to maintain a safe working environment and prevent a major incident The Group's operations are inherently complex and potentially hazardous and require the continuous management of safety, health and sustainability issues.	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 › Financial penalties arising from fines, legal action and project delays. Mitigating actions › Minimise the operational impact of relaxing restrictions in the workplace and community › Continued focus on the five basics of SHE risk management › Implementing the Group's new sustainability framework, 'Building for a Sustainable World' › Setting a tone from the top, through activities such as senior management visible leadership tours.
2 Legislation and regulation Level of impact  Board risk appetite  Risk owner Group Legal & Compliance Director	Failure to comply with and manage effectively current legislation and regulation and any changes to them The sectors in which the Group operates are subject to increasing scrutiny from stakeholders, oversight from regulators and requirements including those introduced by new legislation or regulation.	Potential impact › Penalties for failing to adhere to legislation or regulation › Increased operating costs of compliance › The loss of business and resultant reputational damage. Mitigating actions › Appropriate policies that are regularly reviewed and relevant training to support policy implementation › Regular engagement with Government and Government agencies with respect to the Group's performance › Monitoring of, and planning for, the impact of new legislation and regulations › Collaborative engagement with external stakeholders.
3 Funding Level of impact  Board risk appetite  Risk owner Chief Financial Officer	Failure to maintain adequate financial liquidity and/or comply with financial covenants Failure to maintain adequate financial liquidity and or comply with financial covenants resulting in an inability to execute the Group's strategy effectively.	Potential impact › The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees) › Conducting existing business becomes increasingly challenging › The loss of future business. Mitigating actions › During the period, the Group completed a capital raise, which together with the sale of Kier Living raised c.£350m of gross proceeds for the Group. In support of the capital raise the Group secured an extension of a significant proportion of its committed funding to 31 January 2025 providing the Group with financial and operational flexibility to continue to pursue its strategic objectives › Effective cash forecasting and working capital management in combination with continued monitoring and prudent financial planning to ensure covenant compliance is maintained › Continued collaborative engagement with customers, suppliers, HMRC, pension scheme trustees, banks, lenders and sureties.

Risk appetite

H High

The Company has a greater risk appetite where there is a clear opportunity for a greater than normal reward

M Medium

The Company has some appetite for risk and balances its mitigation efforts with its view of the potential rewards of an opportunity

L Low

The Company has a very low appetite for risk that is likely to have adverse consequences and aims to eliminate, or substantially reduce, such risks

Principal risk	Description	Impact/actions
4 Maintaining an order book within selected markets Level of impact Board risk appetite M Risk owner Group Commercial Director	A general market or sector downturn materially and adversely affects the Group's ability to secure work – UK Government spending, certainty and timing, including competitiveness of current market The Group strategy sets out specific sectors that it wishes to trade within. The pipeline of work could be adversely affected by a general or sector downturn or cause a delay to projects going to site. The Group manages the impact of an economic downturn by building a strong order book. It concentrates on sectors with long-term frameworks and customers who prefer repeat procurement.	Potential impact › A failure of one or more of the Group's businesses › Increased competition for new work › A decrease in stakeholder confidence in the Group. Mitigating actions › To continue to secure long-term frameworks within each of our business streams › Tailoring the Kier offer to meet customer needs › Maintaining an efficient cost base.
5 Contract management of changes Level of impact Board risk appetite L Risk owner Group Commercial Director	Failure to manage contracts effectively at each stage of a project's lifecycle. The business suffers a significant loss as a result of failing to follow the contract administration The Group has a large number of contracts in progress at any one time. Changes to contracts may lead to additional costs being incurred, delays and delayed receipt of cash.	Potential impact › A failure to manage project delivery and WIP and, ultimately, to meet the Group's financial targets › The Group incurring losses on individual contracts › The Group failing to win new work. Mitigating actions › To update the Kier standards for contract amendments › To cascade the Commercial Handbook into the business through webinars › To implement the new Commercial Standards across the Group.
6 People Level of impact Board risk appetite M Risk owner Group HR Director	Failure to attract and retain key employees The Group's employees are critical to its current performance. The Group needs to identify, retain and motivate people with the right skills, experience and behaviours and to identify tomorrow's leaders.	Potential impact › An adverse effect on the delivery of the Group's purpose and strategy › A lack of operational leadership, potentially leading to poor project performance › An erosion of the Group's employer brand. Mitigating actions › Diversity and Inclusion roadmap › Wellbeing strategy › New leadership development offer in place › Create an effective, inclusive work environment, through our Performance Excellence culture.
7 Supply chain Level of impact Board risk appetite M Risk owner Group Commercial Director	Failure to maintain effective working relationships with the supply chain and, as a result of COVID-19 bottlenecks and recovery, supply chain insolvencies, capacity, pricing, inflation volatility The Group relies upon its partners for the delivery of its projects. Maintaining a close working relationship is a priority for the Group.	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 › Poor relationships lead to lack of confidence in the Group and adverse publicity. Mitigating actions › To update the Kier subcontract to reflect the principles of the Construction Playbook › To place a Procurement Director directly into each business to deliver their supply chain management strategy › To continue to meet prompt payment reporting requirements.

Strategic report

Principal risks and uncertainties (continued)

Principal risk	Description	Impact/actions
8 Strategy Level of impact Board risk appetite L Risk owner Chief Executive Officer	Failure to deliver the Group's strategy The Group fails to deliver its strategy in terms of medium-term strategic objectives – £4bn-4.5bn turnover, 3.5% margin, 90% cash conversion and a net cash balance.	Potential impact › An adverse impact on the Group's net debt and liquidity › Failure to secure positions on national and regional frameworks › Failure to meet stakeholders' expectations may lead to a decline in confidence in the Group. Mitigating actions › Delivery of the balance sheet strategy › Delivery of our Performance Excellence culture › Continued focus on cash management › Effective communication with stakeholders.
9 Cyber, IT security and data protection¹ Level of impact Board risk appetite L Risk owner Chief Transformation Officer	Kier is exposed to cyber, IT security or data protection breaches Failure to keep up to date with modern attack landscape as well as protecting from current conventional cyber risks could cause heavy reputational damage or financial fines.	Potential impact › Operational impact – e.g. delivery of projects, key systems outage, failure to win work, loss of confidential and/or other data › Financial impact – regulatory fines/prosecutions › Reputational/brand damage. Mitigating actions › Vulnerabilities are understood and mitigated › Certification to the Government's Cyber Essentials Plus Scheme and ISO 27001 › Privileged access to all core systems subject to multi-factor authentication; systems run security agents for additional monitoring › Advanced use of Microsoft Office 365, cloud and collaboration services.
10 Climate change¹ Level of impact Board risk appetite M Risk owner Group SHEA Director	Failure to identify and effectively manage climate change risks and opportunities The Group's operations are subject to physical and financial climate change risks, while climate resilience measures offer opportunities to innovate and expand/enhance capabilities.	Potential impact › Failure to meet client and investor expectations or regulatory requirements › Loss of opportunity to contribute to UK climate action policy and direction › Reputational damage › Failure to prepare/plan for physical and financial impacts of more extreme and frequent weather conditions affecting operations and supply chain. Mitigating actions › Implementing the Group's new sustainability framework, 'Building for a Sustainable World', particularly: › Net Zero Carbon pathway and Science Based Targets › Zero Avoidable Waste strategy › Sustainable Procurement strategy › Sustainability Leadership Forum ('SLF'); chaired by our Chief Executive and supported by business stream SLFs that are led by a managing director or commercial director › Developing the climate risk and opportunities register and net zero management system to align with TCFD reporting and managing the financial risk of climate change › Embracing modern methods of construction and product innovation to deliver low-carbon solutions for climate resilience.

¹ Risk introduced in 2021.

Risk appetite

H

High

The Company has a greater risk appetite where there is a clear opportunity for a greater than normal reward

M

Medium

The Company has some appetite for risk and balances its mitigation efforts with its view of the potential rewards of an opportunity

L

Low

The Company has a very low appetite for risk that is likely to have adverse consequences and aims to eliminate, or substantially reduce, such risks

Other risks

Brexit

The new UK-EU Trade and Cooperation Agreement ('TCA') removed the uncertainty of a no-deal Brexit. While this has reduced the Brexit risk, uncertainty remains around the full effect of Brexit, and the ongoing impact this will have on our trading relationships.

The Group continues to work with its supply chain to maintain plans to ensure continuity of potentially critical supplies and continues to monitor and refresh its contingency plans for potential risk areas such as the workforce. We continue to work with and update customers by providing up to date analysis on availability and mitigation strategies of any resources that are becoming under pressure.

COVID-19

The focus of the Group's management, and our colleagues, throughout the unprecedented COVID-19 pandemic was ensuring that, wherever it was safe to do so, the Group's activities remained safe and operational.

The pandemic highlighted the need to be agile and flexible in the way we operate and has brought about a fundamental shift in the way we work. As a result of the lessons learnt during this time, we have introduced the Kier way of working. In spite of the significant challenge of the pandemic, the Group has delivered well and has made significant progress on the 2019 operational and financial turnaround strategy.

Whilst the COVID-19 pandemic had a continued negative effect on the Group's results and operations, the impact has been effectively managed across our operations through contractual arrangements and extensive stakeholder engagement and communication.

The impact of the pandemic continues to be closely monitored by the Board and the Executive Committee with particular focus on maintenance of a safe working environment, supply chain, materials continuity and availability of critical workforce. We continue to be at the forefront of the sector approach to Site Operating Procedures and safe working practices.

We will respond to any ongoing Government restrictions and requirements and any further re-occurrence of the pandemic to ensure continued compliance. We are maintaining a watching brief of the extent and duration of lockdowns in Europe and will react accordingly.

Emerging risks

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

- › Global recession
- › Ongoing COVID-19 bottlenecks and recovery impact
- › Continued development of the climate change risk agenda
- › Modern construction methods ('MCM') – embracing fast-paced changes in construction methods, linked to digital pace of change
- › Short-term concerns regarding the volatility of key commodity prices.

The Task Force on Climate-related Financial Disclosures ('TCFD')

The Task Force on Climate-related Financial Disclosures ('TCFD') was created by the Financial Stability Board to improve and increase reporting of climate-related financial information, with the aim of providing the financial markets with clear, comprehensive, high-quality information on the impacts of climate change.

Climate change poses significant risks to companies, financial institutions and individuals alike, with the Intergovernmental Panel on Climate Change estimating a global financial loss of \$69 trillion by 2100 from a 2-degree warming scenario.

The recommendation from the TCFD is that organisations disclose their climate-related financial risks inherent within their operation, how they plan to manage climate-related risks and opportunities and how the business model and strategy is expected to change in the light of those climate-related risks and opportunities.

Kier's commitment

Kier is committed to meeting the 11 TCFD reporting requirements, with further details published in our FY22 Annual Report.

To ensure we meet this deadline, during FY21 we engaged a third-party consultant to develop a strategic roadmap for the business. In line with this roadmap, we added climate change onto Kier Group's corporate risk register to ensure it is accounted for by existing risk processes across all business streams.

During the course of FY22, we will be developing a holistic, robust process for identifying and quantifying climate-related risks and opportunities, with financially relevant KPIs for measuring and monitoring progress, tracked through the Risk Committee and relevant governance processes. We will also establish dedicated working groups to apply this process within the businesses. Outputs from these groups will be business stream strategies for mitigating climate-related risk and taking advantage of opportunities. We will then look to establish a communications plan that effectively collates all data and distributes it to stakeholder audiences including investors, customers, regulators and wider groups through our Annual Reports and business updates.

Strong operational performance and materially improved results



SIMON KESTERTON
Chief Financial Officer



The Group performed well during the financial year FY21. Kier's income statement, cash flow and balance sheet all materially improved as the Group completed the strategic actions commenced two years earlier."

Introduction

The Group performed well during the financial year FY21. Kier's income statement, cash flow and balance sheet all materially improved as the Group completed the strategic actions commenced two years earlier.

The Group delivered adjusted operating profit of £100.3m (FY20: £41.4m) with a margin of 3.0% (FY20: 1.2%).

A significant reduction in adjusting items in the period has resulted in the Group's return to profitability with a statutory profit before tax from continuing operations of £5.6m (FY20: loss £225.3m), driven by decisive management actions taken over the previous 24 months.

Adjusted earnings per share was 25.0p from continuing operations (FY20: 12.2p restated). The prior year has been restated as a result of the equity raise.

The Group delivered strong free cash flow of £93m (FY20: £8m outflow) as increased operating profit converted to cash and working capital normalised to levels seen prior to COVID-19.

The inefficiencies caused by COVID-19 reduced in the second half of FY21; both due to the investments made in the prior year to adopt socially distanced working, as well as our businesses and supply chain having learnt to adapt to the new working environment. The majority of the Group's sites remained open throughout the year.

The Group remains well placed to benefit from the UK Government's commitment to national infrastructure investment.

The orderbook was £7.7bn at 30 June 2021. The Group continued to win new business in its markets on terms and rates which reflect the bidding discipline and risk management introduced under the Group's Performance Excellence programme.

The orderbook is underpinned by significant long-term framework agreements including new awards in the second half of the year, albeit at lower levels than seen last year due to procurement delays resulting from COVID-19.



Sale of Living business

On 28 May 2021 the Group announced the sale of its Living division. The disposal represented one of the final milestones in management's strategic actions to simplify the Group and create a strong, resilient and flexible balance sheet.

The sale generated cash proceeds of £110.0m with an additional payment received for working capital movements of £10.8m, less sale costs and liabilities created on disposal. The accounting loss on the assets, which were disclosed as held for sale prior to disposal, was £12.1m. This has been recognised within discontinued operations.

See note 33 of the financial statements for further information.

The results for Kier Living for the period to 28 May 2021 are classified as discontinued. Kier Living's adjusted loss after tax for the period was £0.3m (FY20: £12.8m loss).

Equity raise and refinancing

On 18 June 2021 the Group issued 284,049,829 new shares at £0.85 per share by way of a Firm Placing and a Placing and Open Offer. Accordingly, the total issued share capital now comprises 446,165,699 shares.

The new shares generated gross cash proceeds of £241.4m before deducting costs of £33.6m, of which £22.7m were deducted from equity, £2.6m has been offset against debt with the remaining £8.3m being general advisory fees which have been expensed to the income statement and classified as an adjusting item. Fees of £6.1m remain unpaid as at 30 June 2021.

On completion of the equity raise, the existing RCF debt facilities were refinanced, extending the Revolving Credit Facility of £475m and US Private Placement Notes of £71m to January 2025.

Summary of financial performance

	Adjusted results ¹ – continuing operations			Reported results – continuing operations		
	30 Jun 21	30 Jun 20	change	30 Jun 21	30 Jun 20	change
Revenue (£m) – Total	3,328.5	3,475.6	(4.2)%	3,328.5	3,475.6	(4.2)%
Revenue (£m) – Excluding JVs	3,261.0	3,422.5	(4.7)%	3,261.0	3,422.5	(4.7)%
Profit/(loss) from operations (£m)	100.3	41.4	142.3%	43.7	(195.6)	N/A
Profit/(loss) before tax (£m)	65.4	16.9	287.0%	5.6	(225.3)	N/A
Earnings/(loss) per share (p)	25.0	12.2	104.9%	11.6	(85.3)	N/A
Free cash flow (£m)	92.6	(8.3)	100.9			
Net cash/(debt) (£m)	3.0	(310.3)	313.3			
Net debt (£m) – average month end	(431.9)	(435.6)	0.8%			
Order book (£bn)	7.7	7.9	(0.2)			
Supply chain financing (£m)	79.1	125.5	(46.4)			

¹ Reference to 'adjusted' excludes adjusting items, see note 5.

Revenue from continuing operations

The following table represents a bridge in the Group's revenue from the year ended 30 June 2020 to the year ended 30 June 2021.

	£m
Revenue for the year ended 30 June 2020	3,475.6
Construction	(65.6)
Infrastructure	(84.6)
Property and Corporate	3.1
Revenue for the year ended 30 June 2021	3,328.5

Revenue slightly decreased due to the completion of the Group's simplification, focusing on improving profitability by exiting non-core, low margin and loss-making facilities management and environmental services contracts and businesses, the successful completion of our motorway upgrade projects, as well as challenging market conditions and the ongoing COVID-19 pandemic, partly offset by growth in all of the Group's core businesses.

The above table shows our revenue performance by operating segment and reflects the market conditions experienced in the period along with the UK's exit from the first national lockdown that took place in the first quarter of FY21. The Group continues to focus on delivering high quality and high margin work and the reduction in revenue also reflects this.

Alternative performance measures

The Directors continue to consider that it is appropriate to present an income statement that shows the Group's statutory results only.

The Directors, however, still believe it is appropriate to disclose those items which are one-off, material or non-recurring in size or nature. The Group is disclosing as supplementary information an 'adjusted profit' APM. The Directors consider doing so clarifies the presentation of the financial statements and better reflects the internal management reporting and is therefore consistent with the requirements of IFRS 8.

Adjusted operating profit from continuing operations

	£m
Adjusted operating profit for the year ended 30 June 2020	41.4
Volume/price/mix changes	6.4
Cost inflation	(2.2)
Management actions	34.3
Wages and salaries	(14.9)
COVID direct costs incurred in FY20	35.3
Adjusted operating profit for the year ended 30 June 2021	100.3

Adjusted operating profit improved significantly compared to the prior year despite the reduction in revenue. This is due to the full impact of management actions, including cost savings of £31.2m, being translated into financial metrics. In addition, the costs incurred in the prior year as a result of the COVID-19 pandemic have not recurred. These improvements are partly offset by wages and salaries, which includes an increased bonus accrual, the reversal of the temporary pay reduction in the prior year and the reduced holiday pay accrual.

A reconciliation of reported to adjusted operating profit is provided below:

	Operating profit/(loss)		Profit/(loss) before tax	
	2021 £m	2020 £m	2021 £m	2020 £m
Reported profit/(loss) from continuing operations	43.7	(195.6)	5.6	(225.3)
Amortisation of acquired intangible assets	21.0	23.7	21.0	23.7
Costs associated with previous acquisitions	-	5.0	-	5.0
Restructuring and related charges	31.6	156.1	31.6	156.1
Preparation for business divestment or closure	0.5	33.6	0.5	33.6
Other	3.5	18.6	6.7	23.8
Adjusted profit from continuing operations	100.3	41.4	65.4	16.9

Additional information about these items is as follows:

- Amortisation of acquired intangible assets £21.0m (FY20: £23.7m):
Comprises the amortisation of acquired contract rights primarily relating to the acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017.
- Costs associated with previous acquisitions £nil (FY20: £5.0m):
In prior years the Group recognised charges in respect of the McNicholas acquisition and its subsequent integration. These non-recurring costs have now been substantially completed.
- Restructuring and related charges £31.6m (FY20: £156.1m):
The Group has incurred restructuring costs and related charges in the year totalling £31.6m. The Group continued its strategic restructuring of its Regional Southern Build business which has included the closure of offices, a down-sizing of personnel and the withdrawal/early settlement of certain contract positions. As a result of these ongoing restructuring activities, a net cost of £13.6m was charged in the current year. This relates predominantly to charges in respect of the recoverability of assets and increased project costs due to settlements and delays, which have been directly impacted by this restructuring programme.

This represents an extension of the prior year charges, which similarly included costs relating to the restructuring of management, closure of offices and closure of certain sectors, and the impact that COVID-19 had on market conditions.

In addition, £11.9m was incurred on professional fees and non-people initiatives, including £8.3m of advisors' fees in respect of the equity raise. A further £5.4m of employee exit costs were incurred across the Group and a £0.7m lease impairment charge was also incurred.

- Costs relating to the preparation of business divestment or closure for sale £0.5m (FY20: £33.6m):

A total net loss on sale of two properties has been recognised in the year of £2.2m. This is offset by a credit of £3.0m as a result of transferring the assets and liabilities of Pure Recycling Warwick Limited from Assets Held For Sale as it currently does not meet the criteria. These assets had previously been impaired and are now being carried at their book value.

- Other costs £6.7m (FY20: £23.8m):

Other costs include a £2.4m IFRS 16 interest charge on a leased property that was previously vacated and the write off of £0.8m of unamortised debt refinancing fees relating to the previous refinancing. The remaining charge includes £3.0m in respect of fire compliance and cladding claims and £0.5m following the most recent High Court ruling that pension schemes equalise Guaranteed Minimum Pension between male and female members.

In addition, adjusting items amounting to £24.3m were incurred within discontinued operations. There was a £12.1m loss on disposal of the Kier Living business, £6.5m relates to historical costs within a Kier Living joint venture that had built up in prior periods within work in progress and that were considered irrecoverable prior to sale. In addition, £4.1m was incurred in respect of mothballed land impairments and £1.1m of management incentives were paid in relation to the sale. A further £1.0m of additional cost was incurred in respect of the exit from the Welsh region. These costs are offset by a tax credit of £0.5m.

Earnings per share

Earnings per share ('EPS'), before adjusting items, from continuing operations were earnings of 25.0p (FY20: 12.2p (restated)). EPS, after adjusting items, from continuing operations were earnings of 11.6p (FY20: 85.3p losses (restated)). The prior year restatement of EPS numbers are as a result of the equity raise.

Finance charges

Finance costs have increased to £41.8m (FY20: £36.4m) due to additional forward funding interest within the Property division. Forward funding interest costs relate to advanced funding in relation to certain projects. The forward funding interest costs of £8.8m in the year to 30 June 2021 reflect an alignment of the accounting treatment across all forward funding development contracts. The charge of £8.8m includes £3.9m that represents a cumulative catch up of interest costs that would have been recognised in previous reporting periods if the Group had always applied this accounting treatment to all applicable contracts. An offsetting credit is included within revenue, with a corresponding impact on the Group's operating profit. There is no impact on the statutory profit for the year from continuing operations.

Underlying interest is broadly in line with prior year which reflects the consistent year-on-year average net debt position. Finance costs also include £6.7m (FY20: £7.2m) of costs relating to interest and finance charges for lease liabilities.

Segmental reporting

As part of the Group's continued focus on restructuring and streamlining operations, and in line with the Group's strategy to simplify the Group's portfolio, a review of the Group's Specialist Services business (Facilities Management, Housing Maintenance, Design and Business Services and Environmental Services) was conducted during the year.

Following internal restructuring driven by the potential synergy benefits available, the Group's remaining Specialist Services business is now rebranded as Kier Places, reporting into the Construction Leadership Team. As part of this process, the information that is used to manage the Construction business, and what is being reported to the Group's Chief Operating Decision Maker, has been realigned to include these businesses.

As a result, the Group has considered this and concluded that the results of the Specialist Services division, Kier Places, should be reported within the Construction segment for external reporting purposes.

Balance sheet

Net assets

The Group had net assets of £435.0m at 30 June 2021 (FY20: £240.8m). The primary driver for this is the equity raise.

Goodwill

The Group held intangible assets of £697.2m (FY20: £720.6m) of which goodwill represented £536.7m (FY20: £536.7m).

The Group completed its review of goodwill at 30 June 2021, assuming a pre-tax discount rate derived from a weighted average cost of capital of 9.1%, and concluded that no impairment was required.

The Infrastructure Services CGU comprises £516.3m of the total goodwill balance. Whilst no impairment is noted and management believe the discounted cash flows applied is underpinned by the order book and current pipeline prospects, this CGU is sensitive to changes in key assumptions. The key assumptions in the value in use calculations are the forecast revenues and operating margins, the discount rates applied to future cash flows and the terminal growth rate assumptions applied. Further details of the sensitivities of these assumptions are disclosed in note 13 of the financial statements.

Deferred tax asset

Given the reported losses recorded over the last two financial years, the Group has a deferred tax asset of £138.0m recognised at 30 June 2021 (FY20: £111.0m). The asset has increased in the period due to the change in future UK corporation tax rates and movement in the defined benefit pension liability. Based on the Group's forecasts, it is expected that this will be utilised over a period of approximately 12 years. Further details of the sensitivities of these assumptions are disclosed in note 13 of the financial statements. Due to its magnitude and one-off nature, the £25.5m tax credit relating to the tax rate change has been treated as an adjusting item.

Free cash flow and net debt

	£m
Operating profit from continuing operations	43.7
Depreciation of owned assets	6.4
Depreciation of right-of-use assets	33.7
Amortisation	30.9
EBITDA	114.7
Adjusting items excluding adjusting amortisation and interest	35.6
Adjusted EBITDA	150.3
Working capital inflow	63.5
Net capital expenditure including finance lease capital payments	(47.0)
Joint venture dividends less profits	6.6
Other free cash flow items	7.0
Net interest and tax	(26.8)
Free cash flow before COVID-19	153.6
Net COVID-19 tax repayment	(61.0)
Free cash flow	92.6

	£m
Net debt at 30 June 2020	(310.3)
Free cash flow	92.6
Adjusting items	(72.1)
Pension deficit payments (including £10m related to Living disposal)	(37.0)
Sales proceeds	120.8
Equity raise (net of fees)	224.8
Discontinued operations	(11.4)
Other	(4.4)
Net cash as at 30 June 2021	3.0

The Group delivered strong free cash flow in the year, underpinned by cash generation from operations, a working capital inflow of £64m, which includes a £50m benefit from the implementation of the Domestic Reverse Charge ('DRC') VAT regulations in the year, being partially offset by a £46m outflow as the Group's use of its supply chain finance facility ('KEPS') continued to reduce (FY21: £79.1m, FY20: £125.5m). Net cash proceeds from the sale of Living of £121m and the equity raise of £225m have contributed to the Group delivering a net cash position of £3m at the year end.

Government support

As of 30 June 2021, there was total tax deferred of £18.8m (FY20: £79.8m) representing VAT deferred in accordance with HMRC guidance.

Contract assets & liabilities

Contract assets represents the Group's right to consideration in exchange for works which has already been performed. Similarly, a contract liability is recognised when a customer pays consideration before work is performed. As 30 June 2021, contract assets amounted to £366.4m (FY20: £278.5m). Contract liabilities were £59.9m (FY20: £108.7m).

Retirement benefits obligation

Kier operates a number of defined benefit pension schemes. At 30 June 2021, the reported surplus, which is the difference between the aggregate value of the schemes' assets and the present value of their future liabilities, was £46.2m (FY20: £38.8m), before accounting for deferred tax, with the movement in the period as a result of employer contributions of £37m, which includes £10m of contributions as a result of the Living disposal. This is partly offset by changes in financial assumptions.

Right-of-use assets and lease liabilities

At 30 June 2021 the Group had right-of-use assets of £96.5m (FY20: £100.9m) and associated lease liabilities of £163.8m (FY20: £172.9m).

Accounting policies

The Group's annual consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the UK ('IFRS'). There have been no significant changes to the Group's accounting policies during the period.

Treasury facilities

Bank finance

The Group has committed debt facilities of £685m with a further £18m of uncommitted overdrafts. Following the half year results and the sale of Living and the equity raise, the Group extended its £475m Revolving Credit Facility and £70.9m of US Private Placement (USPP) notes to January 2025.

Over the year, management have reduced the Group's total debt facilities by £189m.

Supply chain finance

The Group offers its supply chain in the Construction business the opportunity to participate in KEPS. The balance owed on this facility is included in trade creditors. The balance at 30 June 2021 was £79.1m (FY20: £125.5m) which was considerably reduced from the prior year.

Financial instruments

The Group's financial instruments comprise cash and liquid investments. The Group selectively enters into derivative transactions (interest rate and currency swaps) to manage interest rate and currency risks arising from its sources of finance. The US dollar denominated USPP notes have been hedged with fixed cross-currency swaps at inception to mitigate the foreign exchange risk. One non-recourse, project-specific, property joint venture loan is hedged using an interest rate derivative to fix the cost of borrowing.

There are minor foreign currency risks arising from the Group's operations both in the UK and through its limited number of international activities. Currency exposure to international assets is hedged through inter-company balances and borrowings, so that assets denominated in foreign currencies are matched, as far as possible, by liabilities. Where exposures to currency fluctuations are identified, forward exchange contracts are completed to buy and sell foreign currency.

The Group does not enter into speculative transactions.

Going concern

The Directors continue to adopt the going concern basis in preparing the Group's financial statements.

The Group delivered improved results in FY21 demonstrating the significant progress made on the operational and financial turnaround strategy announced in June 2019; to simplify and focus the Group, improve the Group's cash generation and strengthen its balance sheet.

The sale of Kier Living and the new share issue enabled the successful completion of the funding elements of the Group's strategic plan. The transactions facilitated a reduction in the Group's net debt, with a repayment of £189m of facilities prior to 30 June 2021: they have provided the Group with more working capital, and with less associated volatility; and they have removed the capital requirement to support residential land acquisition and presence of unconsolidated debt in certain joint ventures.

Along with the reduction in debt facilities in the year, the Group has also agreed and signed an extension to its Revolving Credit Facility (RCF) which was due to expire in July 2022. This has been extended to January 2025, with covenant requirements reset accordingly (see note 30).

The Group performed well through the year ended 30 June 2021 and produced results slightly above the Board's expectations. Average net debt compared to the prior year has reduced slightly compared to FY20, and is expected to materially reduce going forward following the corporate actions noted above. The Group continues to win new business in its markets on terms and at rates which reflect the new bidding disciplines and risk management practices introduced under the Group's Performance Excellence programme. The orderbook as at 30 June 2021 was generally in line with the position at 30 June 2020 at £7.7bn.

Following the revised debt facility agreements, at 30 June 2021, the Group had £685.0m of unsecured committed facilities, £18.0m of uncommitted overdrafts and £79.1m of uncommitted supply chain financing facilities (see notes 25 and 30).

Financial covenant certificates for September 2020, December 2020, March 2021 and June 2021 have been prepared with no breaches noted. The Directors have reviewed the Group's cash flow forecasts for the period to 31 December 2022, which are included in the Group's three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios.

These scenarios included the consideration of risks which may arise to the Group's available liquidity and its ongoing compliance with revised financial covenants within the Group's principal debt facilities as a result of or in light of the following factors or circumstances:

- › The continued and ongoing impact of COVID-19, in respect of which a full shut-down of the construction sector akin to that of March 2020 was not considered plausible in light of the experience of government restrictions imposed during the first half of 2021;
- › Potential reductions in trading volumes;
- › Potential margin erosion;
- › Risks in respect of certain specific projects; and
- › The availability of supply chain finance.

The Board also considered the macroeconomic and political risks affecting the UK economy, including the availability of labour and increased supply chain costs. The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered likely to remain largely unaffected by macroeconomic factors.

The Group is expected to continue to have available liquidity headroom under its finance facilities and operate within the revised financial covenants over the going concern period. The available headroom in a downside scenario has significantly increased compared to previous years. The Directors therefore believe the risk associated with going concern has reduced following the corporate actions taken in the financial year and in light of the Group's execution of its strategic milestones, its most recent trading performance and latest forecasts, and the associated improved headroom over liquidity and covenant limits.

As a result, the Directors are satisfied that the Group has adequate resources to meet its obligations as they fall due for a period of at least 12 months from the date of approving these financial statements and, for this reason, they continue to adopt the going concern basis in preparing these financial statements.

Viability statement

The UK Corporate Governance Code requires the Board to explain how it has assessed the prospects of the Group, over what period it has done so and why it considers that period to be appropriate.

Assessment period

Consistent with the practice of previous years, the Board has assessed the prospects of the Group over a period of three years from 30 June 2021, taking account of its current position and the potential impact of the Group's principal risks and uncertainties (the PRUs) which is set out in this Annual Report and certain other risks referred to below. The Board has identified a three-year period as being a period over which it believes it is able to forecast the Group's performance with reasonable certainty, principally because:

- › The Group's internal forecasting covers a three-year period;
- › The tender process and delivery programme for a number of the Group's projects can, together, take a period of up to approximately three years; and
- › The visibility of the Group's secured work and bidding opportunities can reasonably be assessed over a three-year period.

Assessment process

The work required to support the viability statement was undertaken by management, and has been substantially reviewed by external advisers with respect to certain elements of the work relevant to the recently completed corporate projects, being the Group's disposal of Kier Living and the June 2021 equity raise. The following is a summary of the key elements of the assessment process:

- › The model used as the basis of the assessment included a number of key assumptions (please see 'Key assumptions' below) and was subject to stress-testing (please see 'Stress-testing' below);
- › The process considered the Group's current performance and future prospects, strategy, the PRUs and the mitigation of the PRUs;
- › The process included a review of certain other risks relating to the Group, including macroeconomic and political risks affecting the UK economy (for example, Brexit), and risks relating to the Group's trading, the Group's pensions, the availability of the Group's finance facilities, systemic margin erosion, the execution of the Group's strategy, the supply chain and certain project specific risks; and
- › The process assessed the continuing impact of COVID-19, including ongoing adverse effects and the likelihood of further waves and further lockdowns.

The Directors note that the actions taken in the financial year have strengthened the balance sheet and have extended the maturity of the Group's Revolving Credit Facility to 2025; outside of the assessment period.

Key assumptions

The key assumptions within the model used to support the viability statement include:

- › No material changes to Group operations, including no material acquisitions or disposals;
- › The Group maintains its position as one of the leading providers of construction and infrastructure services to Government and regulated entities;
- › The Group's supply chain finance facility is retained at similar levels;
- › The Group operates within its financial covenants under its principal debt facilities during the review period;
- › The Group's facilities are repaid on their respective maturity dates during the review period; and
- › The Group makes payments to the pension schemes in line with the deficit recovery plan.

Stress-testing

Management assessed the financial impact of a number of severe but plausible downside scenarios (both individually and in combination) by overlaying them against the three-year business plan. These scenarios included:

- › An adverse impact on the Group's forecasts, including a lower than forecast volume, an erosion of forecast margins and a reduction in the win rate of any revenue which is to be obtained;
- › A certain level of loss-making contracts having an impact on the Group's reported profit and cash over the review period;
- › The removal of the Group's supply chain finance facility, which is uncommitted; and
- › The application of certain, additional macroeconomic factors which may impact the Group.

COVID-19

Significant judgement was required to assess the ongoing impact of COVID-19 on the three-year plan. The key assumptions used in this assessment were driven by the most recent experiences the Group has incurred whereby Government lockdowns have not included the construction industry and the primary markets in which the Group operates. The impact on the 2021 results is less severe than the impact incurred in 2020 as social distancing operating procedures have been adopted by the Group since the initial outbreak.

Viability statement

The Board therefore has a reasonable expectation that the Group has adequate resources to continue to operate and to meet its liabilities as they fall due across the three-year review period.

SIMON KESTERTON

Chief Financial Officer

15 September 2021

Introduction to our Environmental, Social and Governance report



ANDREW DAVIES
Chief Executive

Dear shareholder

Welcome to Kier's 2021 ESG report.

Our purpose is to sustainably deliver infrastructure which is vital to the UK. Accordingly, our work is closely aligned to the environment and society. This report explains how our environmental, social and governance commitments are part of our long-term plan as well as the progress we are making towards meeting these commitments.

Sustainability framework

As this is our first report under our new sustainability framework, 'Building for a Sustainable World', we explain how we approach the issues of sustainability under our two structures – environmental sustainability and social sustainability.

We expand on the progress we've made and describe a series of further commitments we are making. In the long term we are aiming to play a leading role in our sector addressing the impacts of climate change.

Environment

Carbon emissions – in FY21, we set out our pathway to become net zero for business operations carbon by 2039, value chain carbon by 2045, and with 2030 interim targets. Our commitment is aligned to the Science Based Targets Initiative and the UK Government's target to reduce greenhouse gas emissions to net zero by 2050.

Waste – we have committed to being single-use plastic-free by 2030 as well as targeting to eliminate avoidable waste by 2035.

Water – we have committed to reducing our water usage over the long term.

Our environmental framework also covers our targets under biosphere protection and sustainable procurement.

This is a transitional year for the business in terms of ESG reporting. In order to ensure we report accurately, we have used FY21 data as a baseline for measuring our performance in subsequent years.

Social

We also make commitments for addressing social issues. We plan to create £5bn of social value by 2030. For example, we currently have 649 apprentices employed within the organisation, which equates to 6% of our workforce.

We also launched our diversity and inclusion roadmap in FY21, which outlines the milestones we are aiming to achieve over the next five years. We believe everyone deserves to have their voice heard and the different experiences people bring will make us a better business.

Governance

Overseeing the business stream is our newly formed ESG Committee which has overall responsibility for ensuring the sustainability framework is adopted and actioned within our businesses.

We believe our targets will benefit all our stakeholders. Our approach to sustainability aims to safeguard our business and build a resilient environment, resilient community and resilient profits over the long term.

ANDREW DAVIES
Chief Executive

E

Environment

For more
information
see pages 56 to 61

Carbon – reduction in carbon intensity of 24% against our FY19 baseline. This represents a 27% reduction against our FY20 performance, from 23.4 tCO₂e to 17.2 tCO₂e.

- › Established commitment to achieve net zero by 2045
 - › Pathway includes a series of interim milestones to reduce carbon emissions by 65% by 2030 and to become net zero in our business operations by 2039.

Waste – 22% year over year reduction in the volume of non-hazardous construction waste from 6.2 m³/£100k revenue in FY20 to 4.9 m³/£100k revenue in FY21.

- › Construction waste (materials and packaging) diverted from landfill – 87% of total FY21 waste.

Sustainable procurement

- › Review and redevelopment of policies with a focus on sustainability
- › Supply chain training, education and collaboration
- › Reduction of 1,200 tonnes of waste and c.600 tonnes of carbon dioxide saved
- › Created jobs and training for 40+ people including prison leavers, people with learning difficulties and those recovering from substance abuse or mental health issues.

Biosphere protection

- › Water – our FY21 baseline for cost of water as a percentage of operational spend is 0.03%
 - › Transitional year with baseline re-set using FY21 data
- › Biosphere assessment conducted to identify risks and define targets.

S

Social

For more
information
see pages 62 to 68

Social value – generating £233m of social value by supporting several community initiatives across the UK and increasing our spend with Voluntary Community & Social Enterprises ('VCSEs').

Safety – 12-month AIR (105) and 12-month AAIR (332) increased by c.21% and c.9%, respectively compared to prior year.

Supplier payments

- › **Days** – year-over-year payment days reduction from 38 to 34
- › **Invoice** – % increase in the number of invoices paid within 60 days from 84% to 89%
- › **SMEs** – 41% expenditure on several public sector frameworks with SMEs.

Employees

- › **Apprenticeships** – 649 apprentices participating in apprenticeship programmes in FY21, 6% of our workforce
- › **Graduates** – graduate intake comprising 25% women in FY21
- › **All abilities** – our Highways business is a Disability Confident Leader and our HS2 joint venture is a Disability Confident Employer, enabling people of all abilities to come into the workplace
- › **Diversity and inclusion** – launched our Expect Respect campaign and introduction of Real Living Wage for direct employees
- › **Wellbeing** – promotion and protection of employee wellbeing including the launch of annual wellbeing survey and Mindtools site.

G

Governance

For more
information
see pages 72 to 97

ESG Committee – evolved approach with introduction of ESG Committee, previously Safety, Health & Environment ('SHE') Committee. Together with the Board, the ESG Committee is to have overall responsibility for ensuring the sustainability framework is adopted.

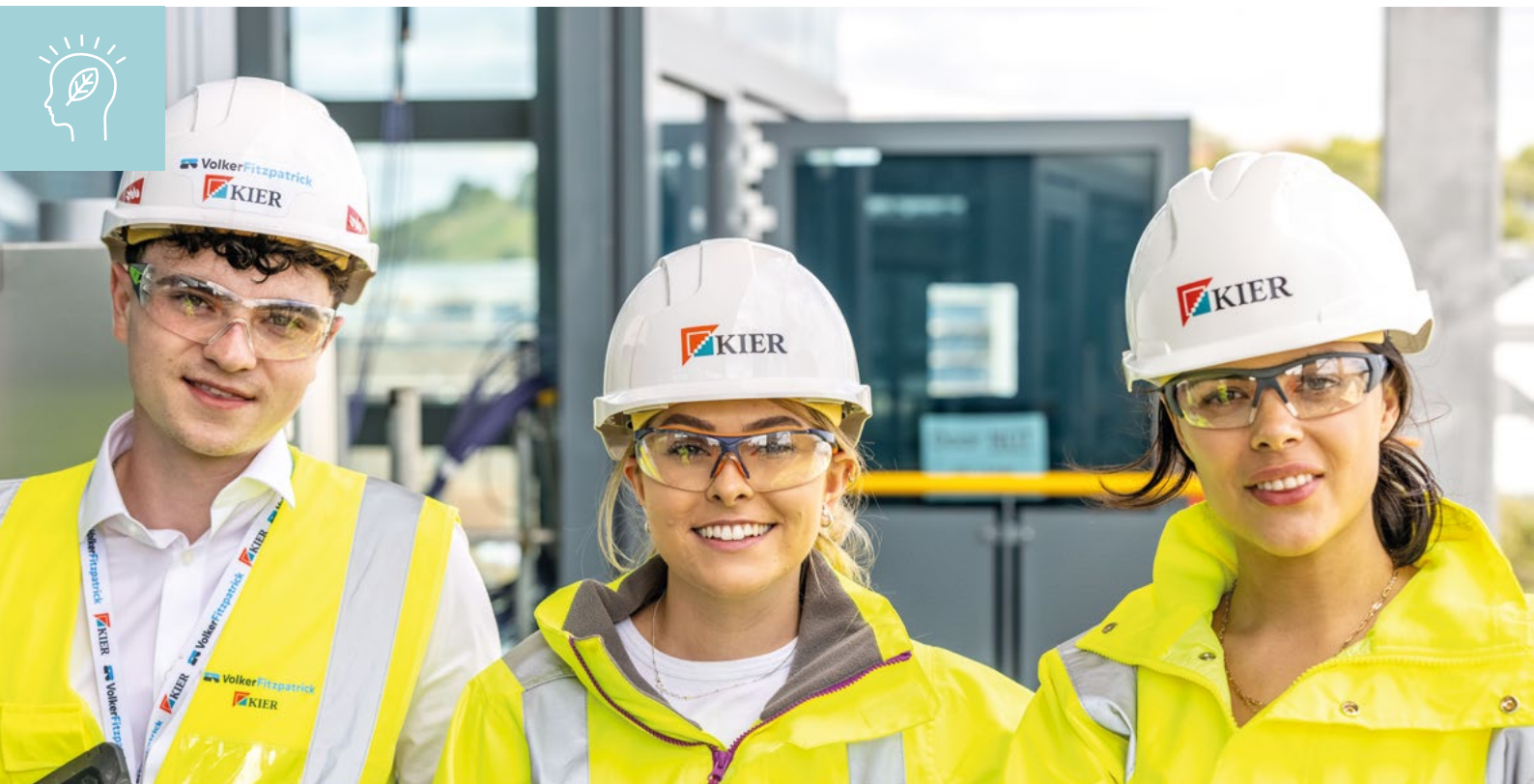
Ethics – existing policies and procedures to provide a consistent basis for responsible business practices, for example, our Code of Conduct.

Risk – monitoring governance matters through annual BSI audits on ISO14001, 45001 & 9001 compliance, Integrated Operational Assurance Statement and processes and operating assurance statements.

- › Internal policy centre supports the Group's efforts in governance focus areas such as modern slavery, anti-bribery and corruption, data protection and whistleblowing matters.

Building a sustainable future

Our sustainability framework, 'Building for a Sustainable World', expands on our existing work undertaken on environmental protection and the creation of social value. Sustainability is critical to our purpose. We view it as a strategic and business mindset.

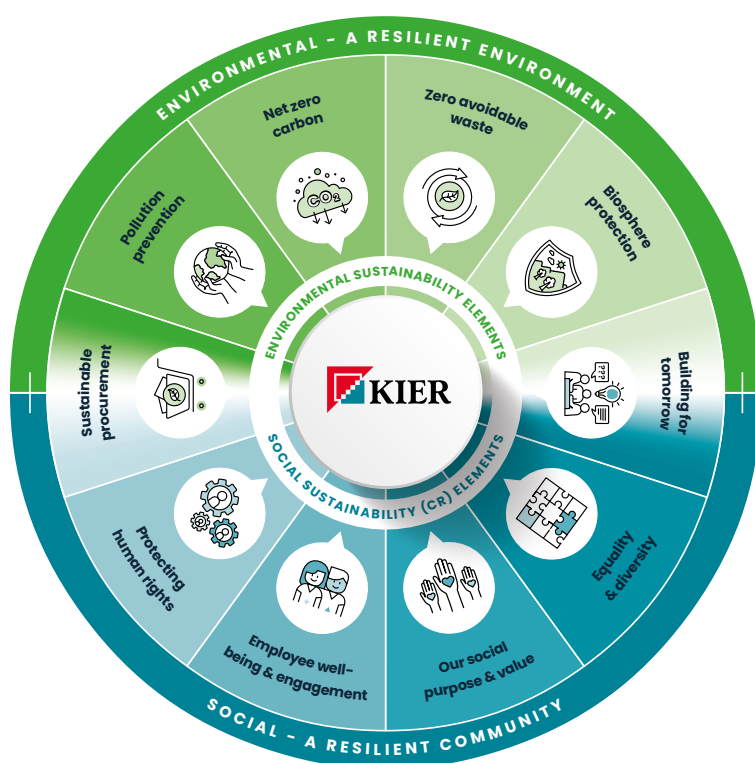




JO GILROY

Head of Sustainability
& Environment

A framework for a better tomorrow



‘Green is a trend, sustainability is a mindset’

At Kier our purpose is to sustainably deliver infrastructure which is vital to the UK. For nearly 100 years we have been delivering for communities across the UK, and now, more than ever, it's important that we do this sustainably.

For Kier, sustainability is a mindset that seeks to create a resilient, purpose driven business by safeguarding three vital features no business can operate successfully without:

- › A resilient environment
- › A resilient community (workforce, supplier & customer base)
- › A resilient balance sheet

To embed this mindset across our business, our sustainability framework focuses on two key components: environmental sustainability and social sustainability.

Read more about Building for a Sustainable World
<https://www.kier.co.uk/sustainability/>



The new decade for sustainable delivery began with a very clear message that we have changed our world, and not for the better. It is imperative that we move beyond the ‘green’ rhetoric and deliver credible and transparent change.”

JO GILROY

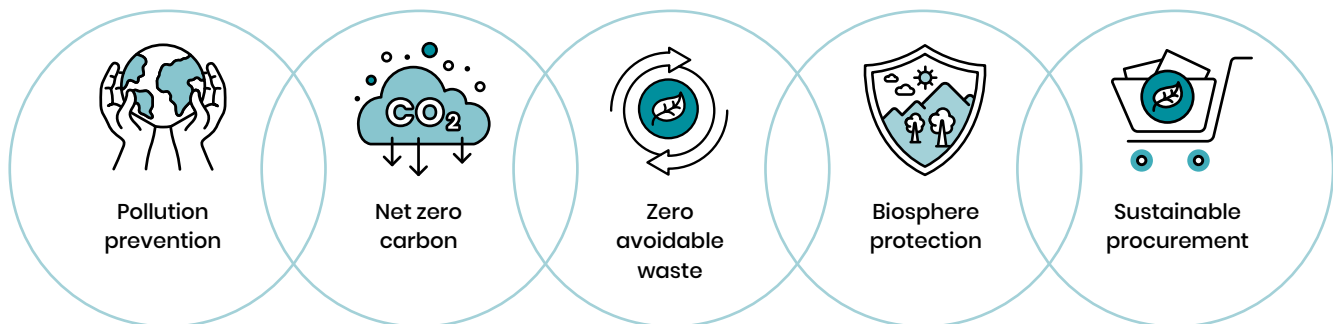
Head of Sustainability & Environment



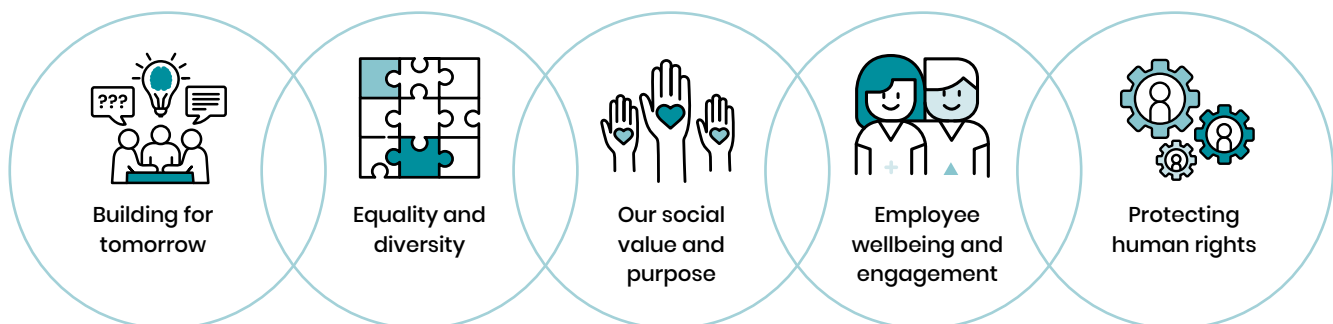
Sustainability framework

Our approach to sustainability is based on ten pillars – five for environmental sustainability and five for social sustainability. The framework is governed through Sustainability Leadership Forums established at Group level and for each core business.

Environmental sustainability



Social sustainability



Long-term targets

Reduce carbon emissions by 65% by

2030

Create £5bn of social value by

2030

Single-use plastic-free by

2030

Elimination of avoidable waste by

2035

Net zero

for business operations and value chain carbon by 2045



We are taking a balanced approach and seeking to deliver a positive impact.”

To welcome in a new decade of sustainable development, in FY21 we launched our new sustainability framework, ‘Building for a Sustainable World’, setting out how, as a Group, we can all change our mindsets to embrace sustainability so that it becomes business as usual.

Based on the guiding principles and 17 goals of the United Nation’s Sustainable Development Goals (‘SDGs’), and applying an ESG lens to our measures of success, Building for a Sustainable World includes ten pillars of action, addressing our most pressing areas of environmental and social concern and focusing on where we can have the greatest impact through our operations. The goals are interlinked and structured. We believe in order to achieve sustainable development, we must do more than just address climate action (SDG Goal 13) through net zero carbon reduction plans. Effective sustainability strategies should create a stable biosphere upon which to build resilient communities and resilient economies.

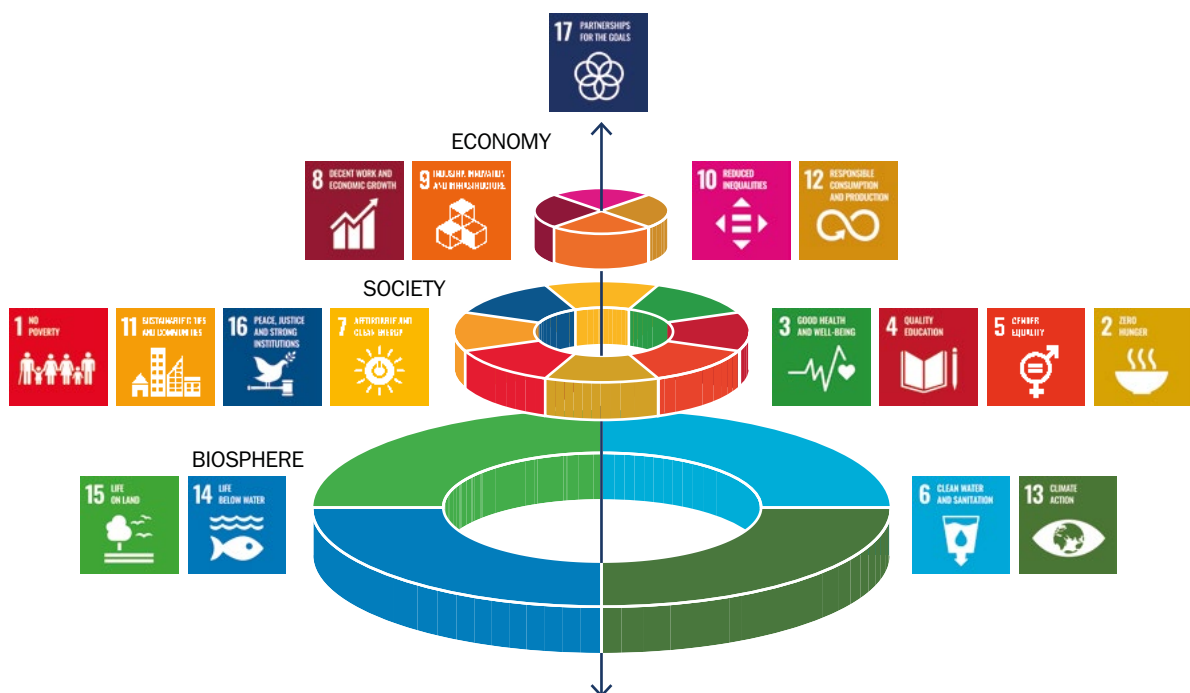
Achieving our purpose to ‘sustainably deliver infrastructure which is vital to the UK’ is based on the Group addressing the Biosphere Goals and considering the life cycle of our impact.

In recognition of these efforts and in partnership with Network Rail, Kier won a ‘Sustainability & Environmental Excellence’ award at the 2020 Rail Business Awards, for its work in the community. We were also shortlisted for ‘Most Innovative Use of Existing Tech’ at the 2020 Water Industry Awards, as a result of our collaboration with Huber and South West Water to reduce chemical consumption and operating costs in the South West of the UK.



Delivering a sustainable mindset

In line with our corporate values of collaborative, trusted and focused, we are committed to getting sustainability right, rather than being first. To achieve this, we have implemented a number of initiatives within Kier to help make sustainability THE mindset within our organisation. To ensure good governance of our framework, we established our Sustainability Leadership Forums (‘SLF’). Each of Kier’s five business streams have established an SLF and appointed a member of Kier’s leadership team to lead the group. The purpose of the business stream SLFs is to develop and deliver strategies and action plans for achieving the framework objectives and long-term targets. Overseeing the business stream SLFs is the Group SLF and the ESG Committee. Both have a responsibility for ensuring the sustainability framework is adopted and actioned within Kier’s businesses; for reviewing business led sustainability strategies; ensuring they are fit for purpose; and for reviewing the outputs and recommendations from specialist working groups. The Group SLF comprises of department heads from across the Group and is led by our Chief Executive.



For more details on the SDGs please visit <https://sdgs.un.org>



Pollution prevention

Under our Building for a Sustainable World framework we have added a new KPI looking at the cost of environmental incidents and near misses to the business. This improves visibility and awareness of both the environmental and commercial impacts of managing environmental risk and has demonstrated that even near misses can have significant costs.

Inspection – in order to record the cost of environmental incidents, we have refined our site inspection tools to focus on the key environmental compliance areas of pollution prevention, waste management and ecological protection.

Training – we implemented training on the improved tools to help our employees to better recognise potential environmental damage. We have also encouraged a proactive approach to reporting near misses and incidents so that we can identify trends and address root causes more effectively. We have issued new and improved guidance on classifying and reporting environmental incidents which we will continue to reinforce.

Resources – our employees are encouraged to sign up for an individual membership with the Supply Chain Sustainability School enabling them to access the training and resources available. Of the 435 individual memberships we have, 225 of these signed up during this year and our colleagues have used the resources over 700 times.

Metrics – in FY21, environmental near miss reporting increased along with the number of recorded environmental incidents compared to the previous year. We believe this is because our focus on pollution prevention and reporting of the cost of near misses and incidents has encouraged a positive reporting culture in the period and improved reporting overall. This is reflected in an increase in our All Environment Incidence Rate ('AEIR') to 220 (FY20: 90). We are committed to reducing this rate in parallel with progressing our reporting process.

Pollution Prevention Working Group

Worked with our key suppliers to develop:

- › a bespoke spill response training catalogue
- › a spill response equipment catalogue
- › a Group-wide service for third-party spill response.



We have introduced a significance-weighted environmental incidence rate to focus inspections and audits on high-risk activities and prevent incidents from occurring.”



Net zero carbon

Since 2014, we have reduced the carbon emissions intensity of our operations by 54% and we are focused on a continual reduction of our carbon emissions. In 2018, the Intergovernmental Panel on Climate Change ('IPCC') warned that global warming must not exceed 1.5 degrees to avoid the catastrophic impacts of climate change. We believe we have a responsibility to mitigate the impact of climate change.

We have a diverse range of customers and sectors we work in, which presents us with a unique opportunity to dramatically change the landscape of the UK built environment for the better. A key target of the Building for a Sustainable World framework is for Kier to achieve net zero for our business operations (Scopes 1 & 2) and value chain (Scope 3) carbon by 2045. Our full pathway and net zero interim targets are detailed on pages 58 and 59.

This year Kier has taken action to reduce our emissions in the quickest and most effective way possible using simple solutions such as:

- Procurement policy – change in our procurement policy so that all new electricity contracts are procured on renewable tariffs
- Fleet – at Group level we have begun the process of switching our fleet from internal combustion engines to electric vehicles, along with the infrastructure required to support this
- Buildings – the ongoing auditing of our buildings' energy use now documents and reports on the associated carbon emission reductions, highlighting not only the consumption and cost that will be saved by implementing energy saving recommendations but also the associated carbon emissions. This allows for better decision-making on our priority actions.

We have identified opportunities to reduce our overall emissions in a number of ways, including:

- Improving the ways in which we collect and collate our Scope 1, 2 & 3 data
- Employee engagement and behaviour change within our buildings, construction sites and within our vehicles
- Informing and improving procurement decisions for the way in which we buy and manage our assets, looking for energy efficiency opportunities across our plant, vehicles and temporary accommodation.

We will continue to incorporate low carbon technologies, materials and ways of working into our operations, and continue to work with our supply chain to trial new technologies, such as alternative fuels within our generators and vehicles, electrified plant and machinery and solar powered cabins.

The table below details our statutory carbon footprint for FY21. Total emissions from our business operations carbon (Scopes 1 & 2) for the year was 58,622 tCO₂e* which equates to 17.2 tonnes per £m revenue. This represents a 27% decrease in carbon intensity compared with the FY20 figure, and a 24% reduction against FY19. This decrease is due, in part, to the carbon reduction initiatives undertaken by our businesses, but also the result of a decrease in operational productivity due to the nationwide lockdown in response to COVID-19. Our dataset covers 94% (2020: 94% based on financial year) of the Kier Group operations by revenue. Scope 1 fugitive emissions are not included as the data is not available. Reporting follows the requirements of The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Our carbon footprint was quantified by reviewing all operational data available in line with the Greenhouse Gases Protocol standard. We have applied the most relevant emission factors sourced from DEFRA's 2020 UK Greenhouse Gas ('GHG') Conversion Factors for Company Reporting and other equivalent data sources for our emissions outside of the United Kingdom.

Emissions associated with joint ventures are currently excluded in line with existing reporting scope and this is due to change for future reports. Data associated with Kier Living has not been included from 1 June 2021 onwards, due to Kier Living being sold to Foster BidCo Ltd, a newly formed company owned by private equity firm, Terra Firma at the end of May 2021. It has now re-branded to Tilia Homes. Market based emissions have been calculated in FY21 using more detailed tariff level data (where this was available), to show the benefit on the carbon footprint that we have had by purchasing primarily 100% green energy. In previous years the market-based figure was based on supplier averages as published via fuel mix disclosures on their websites.

Ghg emissions data	18-19		19-20		20-21	
	UK	Global	UK	Global	UK	Global
Scope 1 (tonnes CO ₂ e)						
Combustion of fuel and operation of facilities	74,139	86,839	54,669	70,993	44,315	53,175
Scope 2 (tonnes CO ₂ e)						
Electricity purchased						
› Location-based	8,430	8,468	7,510	7,543	5,416	5,447
› Market-based	7,014	7,051	6,178	6,211	356	387
Total Scopes 1 & 2 (tonnes CO ₂ e)						
› Location-based	82,569	95,307	62,179	78,536	49,730	58,622
› Market-based	81,153	93,890	60,847	77,204	44,671	53,562
Intensity measurement (tonnes CO ₂ e per £m turnover)						
› Location-based	20.0	22.7	19.3	23.4	14.8	17.2
› Market-based	19.7	22.4	18.9	23.0	13.3	15.7

Energy usage	18-19		19-20		20-21	
	UK	Global	UK	Global	UK	Global
Energy consumption						
Total energy consumed (kWh)	322,631,000	374,771,000	238,964,000	305,948,000	206,212,000	243,203,000

* CO₂e = carbon dioxide equivalent



Our pathway to net zero

In July 2020 we committed to achieving net zero emissions across our own business operations and value chain by 2045. This means that by 2045, we are targeting to reduce and rebalance our emissions from all of the carbon categories illustrated by the ENCORD Construction CO₂e Measurement Protocol. To ensure all of our emission sources have been accounted for, we have added additional categories to the ENCORD protocol in line with the GHG protocol which we refer to as ENCORD+. Our net zero pathway also includes a series of 2030 interim targets and our commitment to become net zero for our business operations by 2039.

We refer to Scope 1 & 2 carbon emissions as our 'business operations carbon' as these scopes relate to our own use of energy from direct operations under our control. This is the carbon emitted from fuel used on our sites and in company vehicles, and electricity used on sites and in offices. We refer to our Scope 3 carbon emissions as our 'value chain carbon', as it relates to the use of energy outside of our direct control and includes emissions from subcontractors using energy on our projects, the embodied carbon in the materials we buy, carbon emitted from the transport, processing and disposal of the waste we produce and several other categories.

Scope 1

1. Fuel (Project)
2. Fuel (Premises)
3. Process & Fugitive
- 7.1 Vehicle Fuel

Scope 2

4. Electricity (Project)
5. Electricity (Premises)
6. Imported Heat
- 7.2 Vehicle Fuel

Scope 3

- 7.3 Vehicle Fuel
8. Public Transport
9. Sub-Contractors & Suppliers
10. Waste
11. Materials
12. Product
13. Employees
14. Equipment, Property & Assets
15. Water
16. Other

1

Our commitments

As well as meeting the requirements of the UK Government's recently published Procurement Policy Note ('PPN') 06/21, introducing a new mandatory selection criteria for contractors bidding for UK Government contracts, our pathway is also aligned to the Science Based Targets Initiative ('SBTi') which provides companies with a pathway for reducing carbon emissions based on the latest climate science.

In June 2021, we confirmed our commitment to SBTi's and the Business Ambition for 1.5°C. Additionally, we have also formally joined and aligned to these public commitments to ensure we are transparent and accountable for our carbon reduction performance:

- › World Green Building Council
- › We Mean Business Coalition's Race to Zero
- › Contractors Declare
- › Climate Group's RE100, EP100 and EV100 (for renewable energy, energy productivity and electric vehicles)
- › Supply Chain Sustainability School's Plant Charter.

2

2030 interim targets

These commitments also mean that by 2030 we must have achieved the following interim targets:

- › A 65% reduction in our business operations carbon
- › 100% electric vehicles or be using alternative zero-carbon fuels for our own fleet
- › 100% renewable energy
- › Net zero offices
- › 40% reduction in our project embodied carbon
 - › This includes the energy we use as part of our business operations, within our value chain, and also other carbon emitting activities such as the materials we buy and the waste we produce.
- › Net zero for our onsite plant equipment by 2040.

3

Carbon reduction plan 2022

To achieve our targets, we have produced a carbon reduction action plan for FY22, focusing on activities including:

- › Installing telematics on vehicles
- › Conducting driver engagement and behaviour change campaigns to target idling, inefficient driving of vehicles and vehicle care
- › Procuring renewable energy by using internal procurement processes
- › Transitioning generators to grid supply or use of alternative fuels
- › Sizing generators correctly relevant to their purpose and phase of the project
- › Electrification of mobile plant where possible
- › Reviewing the use of alternative fuels such as Hydrotreated Vegetable Oil ('HVO'), hydrogen and biofuels.

During FY22, we will also be measuring and recording our value chain carbon emissions in order to meet our ambition of achieving net zero by 2045. Having developed new mechanisms for capturing this data, we are now in the implementation phase.



Zero avoidable waste

As part of our Building for a Sustainable World framework, we have revisited our waste KPIs and included a focus on the cost of waste, to bring a commercial understanding to the impact of waste on our business. We have broadened the scope of waste KPI reporting across the business to include all UK operations.

Waste is measured in volumes of construction, demolition and excavation waste. In FY21 we set KPIs for each key business stream based on their specific waste profile. Our businesses were set related KPIs to reduce the cost of direct waste as a percentage of operational spend. We achieved our reduction targets.

The targets set used an estimated baseline. To ensure accurate data reporting, this baseline is being reset using FY21 data. Our FY21 baseline for the cost of waste as a percentage of operational spend is 0.7%. In future Annual Reports we will report on our performance against this baseline.

For construction, demolition and excavation waste we continued to measure reduction in volume and diversion from landfill during FY21. For demolition and excavation waste, our focus is on reducing this wherever possible, but also on the sustainable and compliant reuse and repurposing of this valuable material.

Construction waste (Construction only)

- › Reduction in volume of non-hazardous construction waste from 6.2 m³/£100k revenue in FY20 to 4.9 m³/£100k revenue in FY21, a year over year reduction of 22%. Construction waste reporting covers 44% of the Group by revenue for FY21
- › Diversion from landfill (materials and packaging) – 87% of total FY21 landfill waste.

Demolition and excavation waste (Highways, Utilities, Infrastructure, Construction)

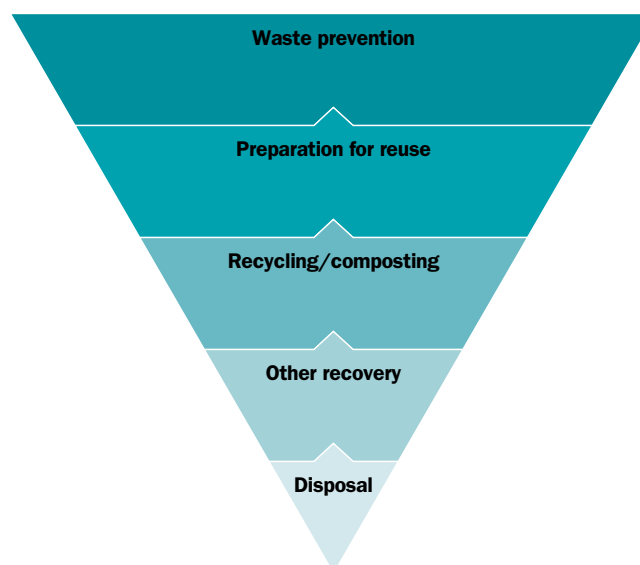
- › Demolition waste diversion from landfill 91% of total FY21 demolition waste
- › Excavation waste diversion from landfill 83% of total FY21 excavation waste.

Under our Building for a Sustainable World framework we have set a target to achieve Zero Avoidable Waste by 2035 and the elimination of single-use plastics by 2030. These are ambitious targets aiming to improve on the goals of the Resources and Waste Strategy for England (ZAW 2050). We are developing our Zero Avoidable Waste strategy in line with the Green Construction Board's working interpretation of Zero Avoidable Waste in Construction, published in February 2020 and the supporting Route map to Zero Avoidable Waste in Construction launched in July 2021.

Delivering our Zero Avoidable Waste strategy will also contribute significantly to Scope 3 carbon reduction.

We are committed to working with our peers as well as our supply chain to continue to be active members of the CIWM Construction & Demolition Waste Forum and the Supply Chain Sustainability School's Waste & Resources Group.

Waste hierarchy



Zero waste initiatives

NHHRS

In FY21 we joined the National Hard Hat Recycling Scheme ('NHHRS'). Our used hard hats will be fully recycled in the UK and the raw materials will now be used to manufacture new products including traffic barriers and road cones.

CIRIA soils project funding

Soil is a valuable resource, vital to supporting a healthy biosphere. We are focused on improving sustainable outcomes for soils from construction and development activities. We are working on and funding projects led by CIRIA on the sustainable use of soils in construction. The projects will produce new guidance for navigating the regulatory framework around soil management in the UK.

Community Wood Recycling project

It's been 10 years since we launched our partnership with Community Wood Recycling ('CWR') – a network of social enterprises that collect and reuse waste wood in the most environmentally beneficial way, while also creating jobs and training for disadvantaged people. Since our partnership launched, we have recycled 9,170 tonnes of wood through CWR, equivalent to 64 blue whales. We have positively impacted the lives of the communities we work in and thanks to the wood we have recycled 102 jobs have been created and 290 people have been trained. By focusing on the reuse of this precious resource, together we have saved more than 5,000 tonnes of carbon, helping in the fight against climate change.



Biosphere protection

As part of our commitment to measuring and mitigating the impact of our operations on life on land (SDG Goal 15) and life below water (SDG Goal 14), in FY21 we introduced a new KPI for measuring our use and conservation of water. Within scope are activities which use:

- › Mains water: metered and paid for by us
- › Mains water: un-metered and paid for by us (where volumes can be derived from bills)
- › Bulk water: delivered to site / premises and paid for by us
- › Abstracted water.

Using an estimated FY20 baseline for the volume and cost of water, we targeted a reduction in the cost of water as a percentage of operational spend. During FY21 the business significantly improved its processes for measuring water impact. Subsequently, we are now able to report internally on actual volume and cost.

To ensure accurate data reporting, this baseline is being reset using FY21 data. Our FY21 baseline for cost of water as a percentage of operational spend is 0.03%. In future Annual Reports we will report on our performance against this baseline. In addition to our water conservation efforts, we have developed our approach to measuring and managing our biodiversity footprint. We have won a number of 'Green Apple' awards for biodiversity and protected species enhancement.

During FY22, we plan on initiating a biosphere impact assessment of our operations; understanding the biosphere risk of our supply chains; defining targets, disclosure methods and mitigation actions; and delivering our action plan to become a biosphere positive organisation. We look forward to reporting on this.



Sustainable procurement

This year has seen a considerable amount of activity undertaken in relation to this new focus area for us, led by our dedicated sustainable procurement working group. We began the year with a 'back-to-basics' review which saw us rebuild our procurement processes and policies with sustainability as a core component. As part of our work, we have:

- › redeveloped and redesigned our supplier review process;
- › reviewed and revised our pre-qualified questionnaire to include a strong focus on sustainability;
- › revised our approach to supplier audits and supply chain risk assessment.

We have had an increased focus on looking beyond our suppliers to assess the environmental impact of their supply chains, and to assess their exposure to and take preventative action against modern slavery.

Collaboration – we have continued to work collaboratively with our supply chain regarding technology and material development. For example, we have created sustainability brochures for our projects in partnership with preferred supplies GAP and Sunbelt to encourage our project teams to use sustainable alternatives.

Materials – we have developed a new Materials Assessment Tool ('MAT') for measuring the sustainable impact of our most used materials. This purpose of the tool is to enable us to make better buying decisions. The tool is currently in the final stages of development and will be launched in FY22.

Standards – we also developed our sustainable procurement standard for our supply chain, aligning commercial teams across the business and supporting our supply chain in meeting our clients' future needs around sustainability.

Inclusivity – sustainable procurement includes a strong focus on inclusivity, providing equal opportunities to all suppliers. We are actively working to identify and break down the barriers that exist for SMEs, VCSEs and businesses that are owned by minority groups including, but not limited to, women, ethnic minorities, LGBTQ+, people serving in the armed forces and veterans as well as those with a disability. Our expenditure on public sector frameworks with SMEs was 41% in FY21.

In the last 12 months, we have partnered with two key organisations to deliver our Building for a Sustainable World framework: Supply Change, a female-led social enterprise to support our ambitions to grow our network of social enterprises; and Energise, an SME organisation supporting the delivery of our net zero targets. We are committed to removing the barriers that currently exist to ensure an equal opportunity exists for all potential supply chain partners.

Metrics – as a result of our partnership this year, we reduced 1,200 tonnes of waste and saved nearly 600 tonnes of carbon dioxide. In addition, we created jobs and training for over 40 people, including prison leavers, people with learning difficulties and those recovering from substance abuse or mental health issues.

Building for tomorrow

Aiming to drive innovation for our stakeholders,
the industry and community.



Building for tomorrow

Building for tomorrow aims to:

- › Establish the Kier 'Sustainability Lab' to generate sustainability ideas and innovations in 2021
- › Establish Kier as a leading sustainability business within the built environment and beyond
- › Develop partnerships to drive forward sustainability initiatives.

Sustainability Lab

The Sustainability Lab was established during the year and is an employee-led sustainability innovation hub for new products and services and a platform for colleagues to share best practice and insight that specifically advances our sustainability framework.

It will establish us as a leading sustainability business and will enable us to develop partnerships that will help us drive sustainability forwards, not only for us and our clients, but also the communities we work in.

Where appropriate, this will give colleagues the opportunity to identify and trial thought-leading innovation to help solve social and environmental issues, such as poverty, pollution and climate change.

Forums

In addition to the Sustainability Lab, Building for tomorrow will allow us to assess the feasibility of supporting community entrepreneurial programmes, including social enterprises and small, medium, enterprises ('SMEs').

We are working on how we can make ourselves more visible and involved in the sustainability conversation. This includes joining organisations such as Future Cities and ensuring our people are

engaged in forums and boards such as Business in the Community and regional Chambers of Commerce to discuss our sustainability goals with stakeholders and peers outside of Kier.

UK Government

It is also important that we are aligned with policy and standards created by the UK Government and experts, including initiatives such as the Construction Playbook and the Business Services Association ('BSA') Best Practice Statement on Partnership Working between larger businesses and Voluntary Community & Social Enterprises ('VCSE') organisations or SMEs.

Lowestoft place-based project

Since 2019, Kier has worked in partnership with Business in the Community ('BITC') on a place-based programme in Lowestoft. Working closely with East Suffolk Council and local businesses, through the full-time secondment of a 'business connector', the partnership has supported the development of the Lowestoft Place Board which has successfully secured £24.9m from the UK Government's Town Fund to develop and deliver regeneration through the town's 'master plan'.

Kier also supported the establishment of an Ambassador Group made up of local people from all walks of life. Throughout the COVID-19 pandemic, this has brought businesses, retailers and charities together to help reduce social isolation and food poverty and has delivered vital equipment to the most vulnerable in society.



Equality & Diversity

We believe everyone deserves to have their voice heard and the different experiences people bring will make us a better business.

In FY21, we launched the Kier Diversity & Inclusion (D&I) roadmap, which outlines the D&I milestones we are aiming to achieve over the next five years.

Networks

The roadmap includes several new D&I programmes such as the Kier Inclusion Network (KIN) which is a space where our people can safely support each other.

KIN is open to all employees and is run by three Executive Committee members and our head of diversity & inclusion. Everyone has a role to play in championing change across the Group and there are currently over 200 members.

Our employee networks are run throughout the year. We have added a Racial Inclusion Network, Gender Inclusion Network and the Ability Network. The latter focuses on disability and neurodiversity.

The Group pledged its support to the 'If Not Now, When?' campaign in February 2021. The campaign is CEO-driven and commits to taking key long-term sustainable action on Black inclusion in UK business.

We are also a member of the Greater London Assembly Workforce Integration Network Design Lab. This is a 12-month programme for large businesses to design and test solutions and build inclusive workforces and make a sector-wide impact on the level of employment of young Black men aged 16 to 24 years.

Policies

We also introduced:

- › Real Living Wage for all our direct employees and we're working on a robust plan to implement it for all indirect employees;
- › Updates to our family friendly policies which now include surrogacy and gender expression; and
- › Our Expect Respect campaign, which aims to educate and empower employees to build an inclusive workplace.

The campaign sets out our zero-tolerance approach to harassment, discrimination and bullying within the workplace. Employees are able to report incidents through our confidential line. See opposite for more information.

“Being an inclusive business is the right thing to do; everyone deserves to have their voice heard and the different experiences people bring will make us a better business.”

ANDREW DAVIES

Chief Executive



Starting a sentence with 'I'm not racist but...' doesn't make what you are about to say ok.

CALL IT OUT.

0333 0050499
option 2 then option 3
kier.uk/callitout

**EXPECT
RESPECT**

EXPECT RESPECT

Everyone at Kier deserves to feel respected by colleagues; as a result, we all have a part to play.

The Expect Respect campaign is a Group-wide, long-term campaign that focuses on educating employees about the importance of respect in the workplace and outlines Kier's zero tolerance approach to bullying and harassment.

As part of the campaign, we launched the five respect basics. These are actions and behaviours that all employees are expected to uphold. These are:

- › Banter is not an excuse
- › Call it out
- › Be open minded
- › Respect each other
- › Take action

To support the campaign posters for all sites, depots and offices have been created. These use a small selection of the real-life quotes that were submitted when we asked employees about their experiences.



Our social value & purpose

Our social purpose is to tackle inequality by giving individuals and communities the tools and opportunities to create brighter futures.

Covenants

We were the first company in the built environment to support 16-25 year olds that have spent time in care through the Department for Education's Care Leaver Covenant and we were also one of the first companies to sign the Armed Forces Corporate Covenant in 2013.

Social value metric

In FY21 our social value return total is £233m. This has been achieved by supporting a number of community initiatives across the UK, including providing 39,786 training days and supporting 72,246 individuals with development needs, and spending £1.3m with VCSEs.

Supply chain

We recognise that a lot of our supply chain might not have the resources they need to meet their own social value targets. We have helped them to understand the importance of social value.

Measurement

To help us record our own social value impact, we are introducing the Thrive tool, which will be our new social value calculator.

Since 2016, we have been using the award-winning Shaping our Communities Calculator (SOCC) tool, which was created in-house. Going forwards, we have decided to use a tool with additional capabilities.

The Thrive tool has increased metrics (which also includes PPN 06/21), the ability to track and allocate data, additional reporting opportunities and further capabilities, which will help us to continue reaching our social value targets and recording them in an accurate way. For example, in FY21, we joined the STEM Ambassadors programme, which allows our employees to sign up to volunteer their time to encourage and inspire young people. Since joining in January, we now have 74 new volunteers who have so far donated 124 hours of time, supporting 4,263 participants.

We were a founding member of the Supply Chain Sustainability School and this year we were able to deliver £490,620 of value to our supply chain through the school. This included our suppliers attending workshops, completing e-learning and supplier focused events.

We also launched our partnership with Supply Change, a social enterprise that will connect us with suppliers that are also social enterprises. Supply Change will help to increase our social enterprise spend and we will also help to grow Supply Change's database to promote a more inclusive supply chain with demonstrable, credible and transparent benefits for the local communities it works in.

Moving Through May



Go online to find out more at
www.kier.co.uk/sustainability/the-kier-foundation/

The Kier Foundation supports charities close to the hearts of our employees. In 2020, we partnered with End Youth Homelessness, a UK-wide movement of local charities that have joined forces to tackle youth homelessness together. As part of our partnership with End Youth Homelessness, we have committed to raising £200,000 over the two-year term.

The challenge

With social distancing continuing to be a barrier, we needed to find a way to hold an all-employee fundraising challenge that could be completed on an individual basis, with the opportunity for teams to meet up should the guidelines allow. The challenge would raise money for our charity partner, as well as local charities chosen by our businesses.

The solution

For National Walking Month, we launched Moving Through May, a challenge which saw teams of six walk 1,250km across the month of May. The teams were made up of employees, as well as our supply chain partners and other external stakeholders.

The impact

Over the month of May, we:

- › raised over £155,000;
- › donated to 29 charities;
- › had 1,216 participants; and
- › walked over 256m steps and 193km.





Employee wellbeing and engagement

Safety metrics

The Group's 12-month rolling Accident Incident Rate ('AIR') of 105 and 12-month rolling All Accident Incident Rate ('AAIR') of 332 represents increases of c.21% and c.9% respectively compared to FY20. Whilst we recognise this is disappointing, we retain a solid safety record and maintain high safety standards in our industry. Health and safety remains our licence to operate and we continue to embed best practice and make conditions as safe as possible for our workforce. Looking at the long-term trend, the Group's AIR and AAIR have both decreased by c.50% compared to five years ago.

The business continues to focus on ensuring the safety of the workforce through its 5 SHE Basics campaign, together with an increased focus on ensuring risk assessments and safe systems of work are reflective of the tasks being undertaken.



We want to give our employees the ability to work in a more agile way, while meeting the needs of the business, now and in the future."

Wellbeing

Mental health

Our health and wellbeing team has continued to train Mental Health First Aiders ('MHFA'). We have trained 900 MHFA and all have bi-annual refresher training.

Physical health

As well as mental health, MSK (Musculoskeletal) issues have become a key focus for us as a result of COVID-19. We have worked with our mental health provider, Resilient People, to help us deliver support.

In addition, our benefits team has delivered a number of new initiatives to support both physical, financial and psychological health. For example, we introduced a remote GP service available 24 hours a day for all employees.

Working from home

We have developed a number of education tools and leaflets to support safety whilst working from home. Our physiotherapy provider has supported the business with remote assessments, education and delivery of equipment.

Wellbeing progress in FY21

We recognise the importance of mental health and wellbeing and have taken the following steps:

- **Survey** – introduced an annual wellbeing survey in November 2020, and the addition of wellbeing questions to our Your Voice surveys. The results from the initial survey informed the development of the Kier wellbeing strategy. See page 66 for more information
- **Strategy** – developed a wellbeing strategy and clear action plan. The strategy focuses on: positive environments; culture and behaviour change; policies and people practices; healthy lifestyles; mental wellness; financial wellbeing; and reducing mental health stigmas
- **Communication** – developed a clear communications plan to ensure employees are aware of existing and new support; Your Wellbeing is the employee brand where employees can access a wide range of tools under the headers of mind, body and money
- **Training** – mental wellbeing training for employees. We have partnered with CHX Performance and are currently piloting leadership, management and all employee mental wellbeing training in our Construction business
- **Measurement** – introduced a mandatory performance objective for all senior leaders focused on D&I, employee wellbeing and role modelling good wellbeing practices. This has recently been rolled out.



Development

Our people are our greatest asset and it's critical that they embody our values of collaborative, trusted and focused.

Appraisals

We are now in our second year of our performance review cycle Perform, which uses these values as a framework to ensure all employees have a personal career development plan and regular performance review conversations with their line manager. We have also offered all employees a personal wellbeing plan and encourage them to have conversations with their line manager about their wellbeing.

Your Voice

In November 2020, we introduced regular employee surveys, called Your Voice, to find out how employees feel about working for Kier.

The survey offers the following outputs:

- › An employee emotional engagement index
- › Identifying the areas of the business that are having the biggest impact on how employees feel.

Topics this year have included wellbeing, D&I and line manager support and employee experience. The short, online surveys have a live results page that can be viewed after completing the survey and provide areas of focus for senior leaders across the business. Employee feedback has been used to shape initiatives, including the Kier wellbeing strategy and the Expect Respect campaign.

To further support our employee voice, our leadership teams and Board play a key part in engagement and, despite the ongoing COVID-19 restrictions, have been able to visit key parts of the business to hear directly from our employee population.

These visits include conversations on specific topics, allowing leadership and employees to understand one another's views, and the content of these conversations feeds into decision-making processes that reflect the views of the workforce on corporate governance, people-related matters, and cultural engagement.

Kier way of working

One of the things that has come from listening to our employees is their feelings on how the way we work is changing. We want to give our employees the ability to work in a more agile way, while meeting the needs of the business, now and in the future. We want to improve productivity, reduce our carbon footprint, improve efficiency and enable our employees to build a better work-life balance through agile working and maximising technology.

This has led to the development of the new Kier way of working, which outlines the Company's approach to agile working. It takes the form of a guidance booklet that teams can choose to implement how best works for them, as we know that right now, not all roles can be carried out remotely, and in future there may be wellbeing or operational reasons why this isn't possible.

We are also working on a pilot with Timewise, the flexible working consultancy, across three different sites to ensure that we are fully exploring how flexible and agile working can be effectively implemented on our sites and through our service contracts.

Employee awards

We held our annual employee awards in March 2021. We had over 350 entries from across the Group, and they were of an extremely high standard across categories including developing others, inspiring team and above and beyond. We held a virtual ceremony with over 100 attendees to announce the winners and celebrate the success of our employees.

Apprenticeships

We currently have 649 apprentices (of which 220 are graduates) employed within the organisation, which equates to 6% of our workforce. We envisage this remaining between 6-7% as we continue to deliver apprenticeships as a key means of upskilling employees and bringing in early careers recruits to reduce the industry skills gap. 61% of our apprentices are new recruits and we have a high number of early careers recruits each year, via our graduate scheme and Kier Degree Scheme. These are both aligned to an apprenticeship. In addition, we recruit a number of apprentices into projects where we have a trade or technical requirement. The other 39% of our apprenticeship population is made up of upskills, predominantly via our management apprenticeships. Re-employment rates for apprentices in FY21 was 100%.

We have ensured that apprentices have been able to continue their learning online.

We have allowed time for learners to adapt to this new way of working, ensuring that our intake rates remained steady.

We have converted a number of our programmes to apprenticeships, allowing for further support and coaching to be provided to learners on internal development programmes.

Kier was named in the RateMyApprenticeship Top 100 Apprentice Employers in 2020-21, which supports the profile of our apprenticeship programme.

Talent

We are also focused on attracting, as well as retaining, the best talent. In FY21 we developed our employee value proposition through work using platforms including LinkedIn and Glassdoor. Our rating, based on employee feedback, at 30 June 2021 was 3.9 out of 5. We have continued to build our partnerships with the Construction Talent Retention Scheme and Energy and Utility Skills network.

Kier's two management development programmes – Raising Leaders and Building Leaders – are being delivered by Cranfield School of Management, part of Cranfield University. Raising Leaders is designed to provide high potential Kier employees with a highly facilitated, accelerated development environment that gives them the tools to develop from a technical manager to an operational leader. Building Leaders enables Kier leaders to navigate their specific business environment and address key operational priorities.

We also support industry events such as Build UK's Open Doors to collaborate with sector peers to make construction and infrastructure a career destination of choice and help bridge the skills gap. Our graduate intake in FY21 comprised of 25% women.

Areas of focus

There are four main pillars to Kier's people strategy, which will be a key focus for the Company in the coming year:

› Talent acquisition, development and retention

To attract and retain the most talented people to deliver our business goals. We will enhance our employer brand, celebrate what makes us unique and develop an agile and flexible talent attraction framework. Employees will take personal responsibility for their own performance and development, supported by skilled managers and leaders. Everyone will be able to realise their potential and the impact of working at their optimum performance on their own goals, their teams and Kier.

› Culture and organisation

To create a culture where people are empowered and feel deeply connected to Kier. Our people are supported and empowered to be their best and feel proud to work at Kier. Individual and team performance aligns to our values and people know how playing their part enhances business performance.

› Diversity and inclusion

To build an inclusive workplace where all voices are heard, and our people are able to be themselves and fulfil their potential. All aspects of diversity are valued and we will develop an environment which harnesses respect and drives greater consistency and fairness.

› Reward and recognition

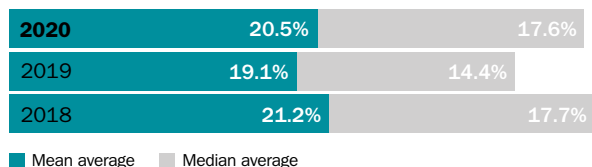
To reward and recognise excellent performance through clear, transparent and equitable reward policies. Align business and individual performance to reward outcomes and value the importance of recognising the efforts of our employees.

Gender pay gap

Due to the measures we took in response to COVID-19 (including furloughing employees) by following the guidelines for measuring our gender pay gap (as set out by the Equality and Human Rights Commission), many of our employees were out of scope on the day the data was measured. For our reporting this year we have added a supplementary 'look through' analysis that adds these employees back in scope and provides a more accurate reflection of our workforce and gender pay gap.

These figures show that our gender pay gap has increased. While this is disappointing, it is due to a number of lower-paid men leaving the business as part of our operational restructuring. We are committed to reducing our gender pay gap by 25% by 2026. Please visit <https://www.kier.co.uk/media/6799/kier-gender-pay-report-2020-final.pdf> for more information.

Gender pay gap (%)



Disability

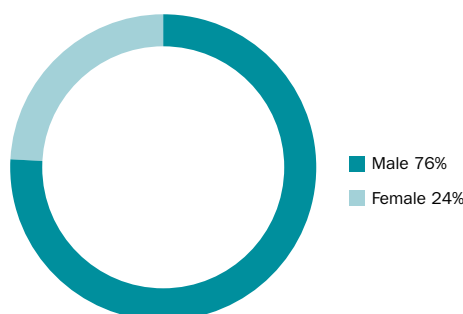
In addition to our Ability Network, we continue to support employees with disabilities. For example, we have created an inclusive recruitment guide to support hiring managers. We have also partnered with an external recruitment organisation to increase the number of applicants who have a disability.

Our Highways business continues to be a disability confident employer and is currently in the process of working towards reaccreditation. Our Nordis Signs social enterprise employs people with disabilities and has done so since 1972. It currently employs 15 people, 12 of whom have a disability.

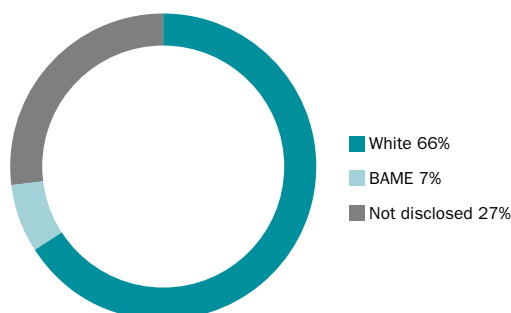
Gender diversity by grade (%)



Gender diversity (%)



Ethnic diversity (%)





Protecting human rights

Policies

We have a series of policies and procedures that address the way that we operate and do business including:

- › Code of Conduct;
- › Anti-Bribery and Corruption;
- › Competition Law;
- › Anti-Slavery and Human Trafficking policies; and
- › Strategy for Responsible Procurement.

Links to the relevant policies can be found on our website.

Procedures

We have formal procedures to assess different organisations to ensure that they are appropriate to work with. This involves a detailed review and appropriate due diligence.

Modern slavery

All our employees are required to take part in mandatory training on how to spot the signs of modern slavery in our offices, sites and depots. Currently, 17 out of 19 business units and 9 out of 10 Group functions have met their training targets.

You can find additional details of our commitment in our modern slavery statement on our website.

We work with the Gangmaster and Labour Abuse Authority ('GLAA') and were one of the first signatories of the GLAA construction protocol. We are working in collaboration to create a new training video for our workforce which makes the link between mental health and modern slavery. This will be rolled out in FY22.

Online learning

We work closely with our supply chain and customers. We made our modern slavery e-learning course available online and accessible for our supply chain. Over 400 members of our supply chain have used these resources.

Sustainability School

We are a founding member of the Supply Chain Sustainability School and in the last year have delivered £490,620 of value to our supply chain through the school, an increase of over 293% from FY20.

Through the school we have set up a modern slavery pathway to provide ongoing support to our supply chain such as training and development on certain topics such as social value, apprenticeship levy, advanced apprenticeships and a Kickstart Programme.

Supplier payment days

We have also continued to work proactively with our supply chain partners and over the year have improved the days in which they are paid from 38 to 34.

Invoices paid within 60 days has also improved to 89%, up from 84% in June 2020.

During the year, McNicholas Construction Services Ltd, our last remaining legal entity, was reinstated onto the Prompt Payment Code following a system and process simplification exercise.

We submit data to the UK Government every six months on our payment practices. We have continued to drive visible systems and process improvements.

These improvements were implemented in tandem with other activities such as the introduction of the Domestic Reverse Charge ('DRC') in March 2021. The DRC was a major change in the way subcontractors pay and account for VAT.

Section 172 statement

The Directors are subject to the legal requirements under Section 172 (s172) of the Companies Act to act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of members as a whole, and in doing so, must have regard to a range of broader issues. Therefore, when the Board makes decisions, we take account of the following as a minimum:

- › the long-term consequences of our decisions;
- › the interests of our employees;
- › the importance of having excellent business relationships with suppliers, customers and anyone else who we impact;
- › the impacts our operations have on our communities and our environment;
- › ensuring we maintain our reputation for the highest standards of business conduct; and
- › act fairly between our shareholders.

As part of our decision making process, we look at how we will potentially impact our stakeholders. We see stakeholder engagement as key to the delivery of our purpose and strategy and therefore our long-term sustainable success. Although there are often competing interests and priorities involved, having an understanding of what matters to our stakeholders allows the Board to consider a wide range of factors.

Matters considered by the Board

Below are examples of decisions taken by the Board during the year and how stakeholder views and inputs, as well as other s.172 (1) considerations, were considered.

S172 factor	Additional information	Pages
Consequences of decisions in the long term	Strategy Risk	12 37-40
Interests of the Company's employees	Diversity and Inclusion Employee wellbeing Directors' Report	63 65 118
Foster the Company's business relationships with suppliers, customers and others	Stakeholder engagement Strategic report	83-84 1-71
Impact of operations on communities and the environment	ESG report Non-financial information statement	50-68 70-71
High standards of business conduct	Non-financial information statement	70-71
Acting fairly between members	Stakeholder engagement Directors' Report	83-84 118-119

We have integrated our reporting to include examples of the Board's decisions and stakeholder engagement throughout this Annual Report. Please see, for example, pages 83 and 84 for more information on our stakeholders, including employees, shareholders, suppliers, customers and communities.

Please see the Strategic report for our strategy and the impact of our decisions for the long term and pages 32 to 41 for our risk management framework as we explain how we manage risk in our decision-making process.

Please see pages 72 to 97 for our governance report and how the Board applied the Principles and complied with the provisions of the UK Corporate Governance Code, including those elements required in line with s172.



Non-financial information statement

The table below summarises how we comply with non-financial performance reporting requirements and is produced to comply with sections 414CA and 414CB of the Companies Act 2006. All Kier Group policies are also available on the Kier website: <https://www.kier.co.uk/investors/corporate-governance/group-policies/>.

Reporting parameter	Companies Act requirement	Kier governance	Kier policy/standards	Additional information necessary to understand our business and its impact, policies, due diligence processes and outcomes
Anti-corruption and anti-bribery	Yes	Risk Management and Audit Committee	Anti-Bribery and Corruption (including Gifts and Hospitality) Policy Kier has a no tolerance approach to all forms of bribery and corruption and is committed to complying with all applicable anti-bribery and corruption laws. In addition to ensuring that our employees and contractors comply with the Anti-Bribery and Corruption Policy, we require all third parties engaging with a member of the Group to comply with this policy in order to ensure compliance with applicable anti-bribery and corruption laws and preserve our own and our customers' reputations.	See www.kier.co.uk/investors/corporate-governance/group-policies/
Employees	Yes	Board	Business Assurance Policy Kier recognises the importance of achieving good standards of quality management and quality control and the impact this has on the effectiveness and sustainability of our business. The Business Assurance Policy sets out the management systems and quality arrangements that Kier expects everyone working for it, or on its behalf, to comply with. Code of Conduct Kier is committed to developing a culture within the Group where everyone does the right thing and takes personal responsibility for their actions. The Code of Conduct sets out the standards of behaviour and business conduct expected from all employees and provides direction on a number of issues employees encounter in their day-to-day activities. Equality, Diversity and Inclusion Policy The Equality, Diversity and Inclusion Policy applies to all aspects of Kier's relationship with its employees and to relations between employees at all levels and covers recruitment, disability, development and training, bullying and harassment, victimisation and human rights. The policy also sets out details of the employee assistance programme which helps employees in enforcing the policy. Safety and Health Policy Statement Kier recognises its responsibility under health and safety legislation and ensures that all workplace risks are identified and mitigated to an acceptable level. Kier is committed to the provision of strong and active leadership, the engagement of the workforce in the promotion and achievement of safe and healthy conditions and the formal assessment and review of the Group's performance. The Safety and Health Policy Statement sets out how the Group identifies risks and mitigates them to an acceptable level. Whistleblowing Policy The Whistleblowing Policy encourages Kier's employees to report suspected wrongdoing, in the knowledge that their concerns will be taken seriously and investigated and that their confidentiality will be respected. Kier believes that a culture of openness and accountability is essential.	See www.kier.co.uk/investors/corporate-governance/group-policies/
Environmental matters	Yes	Safety, Health and Environment Committee	Sustainability Policy Kier is committed to preventing environmental and social harm and having a positive impact on the communities in which it operates. Kier's Sustainability Policy sets out its ambitions for corporate social responsibility and environmental management and recognises that sustainable value creation is fundamental to business success.	See www.kier.co.uk/investors/corporate-governance/group-policies/ See pages 50 to 61

Reporting parameter	Companies Act requirement	Kier governance	Kier policy/standards	Additional information necessary to understand our business and its impact, policies, due diligence processes and outcomes
Human rights	Yes	Board	Business Assurance Policy Please see above. Code of Conduct Please see above. Anti-Slavery and Human Trafficking Policy Kier has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships and to implementing and enforcing effective systems and controls to ensure modern slavery is not taking place anywhere within its businesses or across its supply chain. The Anti-Slavery and Human Trafficking Policy sets out the systems and controls that are in place to prevent modern slavery from taking place in the Group's business and across its supply chain. Kier's supply chain partners must hold their suppliers to the same standards. Strategy for Responsible Procurement The Strategy for Responsible Procurement sets out Kier's standards for ethical and responsible procurement which aim to provide lower impact products and services. Kier is committed to working with supply chain partners that share its standards and support Kier in achieving its objectives. Kier either procures products directly, or through subcontractors or service providers, and in each case identifies the categories of products which it believes pose the greatest risk for undesirable social and environmental impacts.	See www.kier.co.uk/investors/corporate-governance/group-policies/
Social matters	Yes	Board	Sustainability Policy Please see above.	See pages 62 to 68. See also www.kier.co.uk/investors/corporate-governance/group-policies/

Implementation of policies

A combination of online and in-person training on all the key policies is carried out across the Group. In addition, senior managers are required to confirm, periodically, that they are not aware of any breach of such policies having made enquiries of their teams. All employees, contractors and third parties are encouraged to report any circumstances where there is a suspected or actual breach of any of the policies, applicable laws, or the standards as set out in the Code of Conduct, either through their managers, the confidential 'Speak-Up' helpline (which is run by an independent company) or directly to the Group Legal and Compliance Director. Kier views infringements of the policies, procedures and related guidance seriously and reserves the right to take disciplinary action in the event of non-compliance. All reported incidences of actual or suspected breach of any of the policies are promptly and thoroughly investigated.

Business model

A description of the Group's business model is set out on pages 28 and 29.

Non-financial performance indicators

A description of the non-financial key performance indicators relevant to the Group's business is set out on page 31.

Principal risks and uncertainties

A description of the principal risks relating to the matters set out in section 414CB(1) of the Companies Act 2006 arising in relation to the Group's operations, and how those principal risks are managed, is set out on pages 32 to 41 of this Annual Report.

This Strategic report on pages 1 to 71 (inclusive) was approved by the Board and signed on its behalf by:

ANDREW DAVIES

Chief Executive

15 September 2021

SIMON KESTERTON

Chief Financial Officer

Significant progress



MATTHEW LESTER

Chairman

Dear shareholder

In the Governance section, we provide an overview of our corporate governance during the 2021 financial year including the principal activities of the Board and its committees and how we have applied the principles and complied with the provisions of, the UK Corporate Governance Code (2018 edition) (the Code). It is worth noting that Governance at Kier runs throughout the Group and it has been a key focus to embed the appropriate governance framework and systems through Performance Excellence and Kier's Operating Framework. In the Governance section we focus on Board governance, reflecting the Directors' responsibilities in the Code for leading and promoting the long-term success of the Company, generating value for shareholders and contributing to wider society.

Board composition and review

Following the appointment of Alison Atkinson in December 2020, I believe that we have the right balance on the Board in terms of diversity, skills and experience. In relation to our diversity, including gender and ethnicity, we note the recommendations of the Hampton-Alexander and Parker reviews and the Nomination Committee will consider these further in FY22. Further information is contained in the Nomination Committee report on pages 96 to 97. As noted in the Nomination Committee report, since the Board is still relatively new in post with the majority of both Executive and Non-executive Directors having been appointed in the last two to three years, our Board review, externally facilitated by Clare Chalmers and conducted in June-August 2021, was forward looking, focused on how we can improve further and deliver future good governance. Information on the Board review is on page 97.

Our culture

We agreed as a Board that, rather than have a designated Non-executive Director to have responsibility for engagement with the workforce, that each Director, through the Company's long-standing Visible Leadership Tours ('VLT'), would undertake to engage further with the workforce. In particular I wanted each Director to understand first-hand the culture and issues pertinent to the workforce at Kier, rather than have a single conduit to report to the Board. As a result of COVID-19, unfortunately Board members were unable to engage as much as we would have liked with a total of nine VLTs taking place in the period. To support the Board on understanding workforce issues, including culture in particular, the Group HR Director now also regularly attends Board meetings to provide updates and for the Board to monitor progress through various measures. Further information is provided on page 82.

Engaging with our stakeholders

This has been a key year for engaging with our shareholders, in particular with the sale of our Living business and the capital raise but also, for example, with our lenders, supply chain partners, customers and communities as the Company worked hard to improve its financial and operational positions. In addition, we as a Board were very conscious of the need to work alongside our stakeholders during the COVID-19 pandemic with the unprecedented challenges that this brought. We will continue to work with our stakeholders to capitalise on the opportunities for growth that we have as a business.

An overview of the Group's engagement with its key stakeholders and how we considered their views in our decision making is set out on pages 83 to 85.

Risk and internal controls

As well as opportunities for growth, we are mindful of the risks that we face and consider these as part of our governance. The Board recognises its role and responsibilities to establish procedures to manage risk, oversee the Group's internal control framework and determine the nature and extent of the principal risks the Group is willing to take in order to achieve its long-term strategic objectives. We also include information on the principal risks that the Board has recognised and the measures taken to mitigate these.



Governance at Kier runs throughout the Group and it has been a key focus to embed the appropriate governance framework and systems through Performance Excellence and Kier's Operating Framework."

Remuneration

A key element of good governance is ensuring that the Executive Directors and senior team, who implement the Board's strategy, are appropriately motivated to focus on the key issues and deliver on these. If the long-term success of the Company is to be achieved, the executive team need to be appropriately rewarded to reflect the performance provided to the benefit of shareholders and wider stakeholders. Accordingly, the Board has, through the Remuneration Committee, oversight of the Executive Directors and members of the Executive Committee's performance and how this performance aligns with the long-term success of the Company. The Committee considers shareholders' and stakeholder views both through independent advice received and direct engagement. We acknowledged the significant vote against the Directors' Remuneration Report at the 2019 AGM and we listened during the discussions we had subsequently for the new Remuneration Policy, approved by shareholders at the 2020 AGM, a summary of which is provided on pages 110 to 117. Following the sale of the Living business and the capital raise, the Executive and All Employee share plans were adjusted in line with HMRC approved formulae. The Remuneration Committee also considered the appropriateness of the performance conditions of the Executive plans including LTIPs. Further information is provided in the Remuneration Report on pages 98 to 117.

Code compliance

In line with the Code, the following pages describe how the Company applied the Code's principles and our full compliance with the provisions, noting areas for further development in FY22. A detailed note on compliance and the application of the Principles is provided on page 74.

MATTHEW LESTER

Chairman

15 September 2021

The UK Corporate Governance Code – Compliance

The Company is subject to the UK Corporate Governance Code (July 2018 edition) (the Code). A full version of the Code can be found on the Financial Reporting Council's website: www.frc.org.uk.

During the 2021 financial year, the Company applied the Principles of the Code. Information on how the Company applied the Principles, what action has been taken and the resulting outcomes is provided in this Governance report (and for Remuneration, the Directors' Remuneration Report) as follows:

Section 1 – Principles A to E		Where to find further information
Principle A: board's role and company's long-term sustainable success, purpose, strategy, value and culture		Pages 73 to 82
Principle B: company's purpose, values, strategy and culture		Pages 80 to 82
Principle C: resources, prudent and effective controls		Page 80 and 88
Principle D: shareholder and stakeholder engagement		Pages 83 and 84
Principle E: workforce policies and practice and workforce concerns		Page 82
Section 2 – Principles F to I		
Principle F: chair's role		Page 77
Principle G: board balance and division of responsibilities		Pages 76 and 77
Principle H: non-executive directors' time and role		Page 77
Principle I: information and resources		Page 77
Section 3 – Principles J to L		
Principle J: board appointments		Pages 96 and 97
Principle K: board and committee composition		Pages 78 and 79
Principle L: board evaluation		Pages 96 and 97
Section 4 – Principles M to O		
Principle M: policies and procedures for internal and external audit		Pages 88 to 92
Principle N: fair, balanced and understandable assessment		Page 92
Principle O: risk and internal control framework, principal risks and risk assessment and management		Page 88
Section 5 – Principles P to R		
Principle P: remuneration policies and practices and strategy and long-term sustainable success		Pages 98 to 117
Principle Q: director and senior management remuneration procedure		Pages 98 to 117
Principle R: independent judgement and discretion on remuneration		Pages 98 to 117

Provisions of the Code

The Company is required to state whether it has complied with the provisions in the Code or if not explain why, the actions it has taken to ensure good governance and timeframes for non-compliance.

The Board considers that it complied with the provisions in the Code but provides further information in relation to Provisions 5 and 17 as outlined below.

Provision 5 – Engagement with the workforce

Due to the COVID-19 pandemic, the Board's engagement system with the workforce via the Visible Leadership Programme was curtailed but further information was provided to the Board via the enhanced HR reports. This is an area of focus and the engagement, via Visible Leadership Tours, has recommenced in FY22 with a view to providing a full report in the FY22 Corporate Governance section.

Provision 17 – Succession planning

In the year, the Nomination Committee had a greater focus on the externally facilitated Board and Committee forward looking review and development opportunities. With such a relatively new Board and Executive Committee, further work on succession planning for the Board and senior management will take place in FY22 and be reported on in next year's Annual Report.

Board statements

The Board is required to make a number of statements on certain governance matters. These statements are set out in the following table:

Matters	Board statement	Where to find further information
Compliance with the Code	The Directors confirm that, throughout the 2021 financial year, the Company applied the principles of the Code and complied with the provisions of the Code.	‘Compliance with the Provisions of the Code’ on page 74. ‘Application of the Principles of the Code’ on page 74.
Going concern basis	The Directors are satisfied that the Group has sufficient financial resources to continue to operate for at least 12 months and, therefore, have adopted the going concern basis in preparing the Group’s 2021 financial statements.	Strategic report on pages 1 to 71. ‘Principal risks and uncertainties’ on pages 37 to 40. ‘Going concern’ in ‘Financial review’ on pages 47 and 48. ‘2021 financial statements – significant issues and other accounting judgements’ in the Risk Management and Audit Committee report on page 91.
Viability statement	The Directors have assessed the viability of the Group over a three-year period ending 30 June 2024, taking into account the Group’s current position and the principal risks and uncertainties set out on pages 37 to 40. Following this assessment, the Directors have a reasonable expectation that the Group will continue to operate and to meet its liabilities as they fall due over this period.	‘Principal risks and uncertainties’ on pages 37 to 40. ‘Viability statement’ in ‘Financial review’ on pages 48 and 49.
Assessment of the principal risks facing the Group	The Directors confirm that they have carried out a robust assessment of the emerging and principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity. The Directors also assessed their appetite with respect to these risks and, via the Risk Management and Audit Committee, monitored the systems required to mitigate and manage them.	‘Principal risks and uncertainties’ on pages 37 to 40. ‘Risk assessment and risk appetite’ on page 34 to 36.
Annual review of systems of risk management and internal control	During the 2021 financial year, the Board monitored the Group’s systems of risk management and internal control, via the Risk Management and Audit Committee, and carried out a review of their effectiveness. The conclusion was that, overall, these systems are effective.	‘Systems of risk management and internal control – Effectiveness review’ in the Risk Management and Audit Committee report on page 88.
Fair, balanced and understandable	The Directors consider that this Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group’s position, performance, business model and strategy.	‘2021 Annual Report – fair, balanced and understandable statement’ in the Risk Management and Audit Committee report on page 92.
Section 172 Companies Act 2006 statement	Please see ‘Section 172 statement’ on page 69.	

Leading the Company

The Governance Framework at Kier

Shareholders

Board

Accountable to shareholders and responsible for the long-term success of the Company

Board Committees

Nomination

see page 96

Remuneration

see page 98

Risk Management and Audit

see page 86

Safety, Health and Environment / ESG

see page 94

Executive Committee

- › Reviews material operational matters
- › Decides significant HR matters
- › Discusses business units' performance

Group Risk Committee

- › Reviews the management of operational risk
- › Identifies areas for Internal Audit's review
- › Provides a link between the business and the Risk Management and Audit Committee

Investment Committee

- › Approves material investments made by the Group
- › Reviews returns on capital for investments
- › Reviews risks associated with investments

Group Tender Risk Committee

- › Reviews material opportunities
- › Reviews material tenders
- › Advises on risks associated with tenders and opportunities

Quarterly Business Reviews

- › Assess the financial and operational performance of the business
- › Consider material risks faced by the business
- › Review engagement with key stakeholders

Shareholders

Shareholders have the rights provided to them under the Articles of Association, under the Companies Act and common law. Shareholders may requisition meetings and resolutions and may vote at General Meetings, including the Annual General Meeting for ordinary business and such special business as the Board may seek shareholder approval. Following the capital raise, Kier's share register has more large UK focused long term institutional investors which the Company will look to engage with going forwards on matters pertinent to them.

The Board

The Board is responsible for effective leadership and the long-term success of the Group. The Board considers that it comprises an appropriate combination of Executive Directors and independent Non-executive Directors who together as a unitary Board provide leadership of the Group, establishing the purpose, values and strategy and satisfying itself that these and the culture are aligned. Directors are expected to display the values and lead by example. No one individual or small group of individuals dominates the Board's decision-making processes. The Chairman leads the Board. The Non-executive Directors provide constructive challenge and strategic guidance to the Executive Directors. In addition, they scrutinise and hold to account the performance of management and the Executive Directors.

The Board has delegated certain of its responsibilities to Board committees in order to provide focus on those matters and allow the Board sufficient time on its agendas to consider strategic operational, financial and governance matters. The principal activities of each of these committees during the year are set out in their respective reports in this Annual Report. The decisions which can only be made by the Board are clearly defined in the schedule of matters reserved for the Board, which is available on the Company's website at www.kier.co.uk/corporategovernance.

The matters requiring Board approval include, amongst others:

- › the Group's strategy;
- › mergers, acquisitions and disposals of a material size and nature;
- › material changes to the Group's structure and capital;
- › the payment of dividends;
- › the approval of material Group policies; and
- › material contract tenders and material investments.

The Executive Directors have significant commercial, financial and operational experience of the markets and sectors within which the Group operates. The diverse range of skills and leadership experience of the Non-executive Directors enables them to monitor the performance of the Executive Directors and provide constructive challenge and support to them.

The Executive Committee

The Executive Committee, chaired by the Chief Executive and which ordinarily meets monthly, oversees the implementation of the strategy and its operations, including, for example, consideration of business stream performance, risk, health and safety, Performance Excellence, the Operating Framework, corporate strategy, Government affairs and HR matters.

The three appointments made in the year further strengthen the Committee since they relate to key areas for the business – Property; strategy and corporate development, which includes investor relations; and corporate affairs, which includes relations with the key stakeholder and customer, HM Government, and corporate communications.

The Board was pleased to note that, in line with its policy on diversity, 27% (3 out of 11) of the Executive Committee are now women.

Group delegations

The businesses are led by the Group's managing directors, each of whom sits on the Executive Committee. They are responsible and accountable for the performance of those business streams, in line with the Operating Framework and the Group's Delegations of Authority schedules as well as contributing to the implementation of the strategy set by the Board. Within the business units, governance is delegated to business unit operating boards. In addition, the legal subsidiaries within the business units and their holding companies have their own boards of directors to oversee the operational performance of those companies, in line with their statutory duties.

Board of Directors



MATTHEW LESTER



Chairman, responsible for leading the Board

Tenure on Board: 1 year, 8 months

Independent: Yes (on appointment)

Relevant skills and experience:

- › A chartered accountant, having trained and qualified at Arthur Andersen
- › Substantial strategic and financial experience, through senior finance roles at Diageo and as Group Finance Director of ICAP (from 2006 to 2010) and Chief Financial Officer of Royal Mail (from 2010 to 2017)
- › Significant non-executive director experience at Man Group (from 2011 to 2020) and Barclays (from 2017 to 2020)

Principal current external appointments:

- › Non-Executive Director of Capita (since 2017) and Chair of the Audit and Risk Committee
- › Non-Executive Director of Intermediate Capital Group (since April 2021)



ANDREW DAVIES

Chief Executive, responsible for day-to-day leadership of the Company

Tenure on Board: 2 years, 5 months

Independent: No

Relevant skills and experience:

- › Strong track record of business leadership across a number of sectors
- › Significant experience of mergers and acquisitions and strategy development and implementation
- › Significant operational and corporate experience through senior roles and over 28 years with BAE Systems
- › Formerly Chief Executive Officer of Wates Group (from 2014 to 2018)

Principal current external appointments:

- › Non-Executive Director of Chemring (since 17 May 2016) and Senior Independent Director



SIMON KESTERTON

Chief Financial Officer, responsible for finance and accounting, treasury, investor relations, IT and internal audit

Tenure on Board: 2 years

Independent: No

Relevant skills and experience:

- › A member of the Chartered Institute of Management Accountants
- › Broad range of financial, strategic and IT leadership experience in his former senior roles in the engineering and manufacturing industries
- › Formerly Chief Financial Officer, Europe and Chief Strategic Officer at IAC Group and Group Finance Director of RPC Group (from 2013 to 2019)
- › Significant experience in the implementation of cost reduction, M&A and profitability improvement programmes



JUSTIN ATKINSON



Non-executive Director, Senior Independent Director

Tenure on Board: 5 years, 11 months

Independent: Yes

Relevant skills and experience:

- › A chartered accountant, having trained and qualified at a predecessor firm of PwC
- › Formerly Chief Executive of Keller (from 2004 to 2015) and previously Keller's Group Finance Director and Chief Operating Officer
- › Significant operational, financial and strategic experience
- › In-depth knowledge of the construction sector, both in the UK and internationally

Principal current external appointments:

- › Chairman of Forterra (since May 2019 and formerly the Senior Independent Director and Chair of the Audit Committee from April 2016)
- › Non-Executive Director of James Fisher (since February 2018) and Chairman of the Audit Committee (since May 2018)

**ALISON ATKINSON**

N R RA S

Non-executive Director**Tenure on Board:** 9 months**Independent:** Yes

- › Appointed to the Board as an independent non-executive director in December 2020. Alison is Chief Executive Officer of AWE plc and has significant operational experience in large scale national infrastructure

Relevant skills and experience:

- › She has senior experience of oversight of civil engineering and contracting through her roles at AWE plc, and previously at Halcrow.

Principal current external appointments:

- › Chief Executive Officer of AWE plc

**CLIVE WATSON**

N R RA S

Non-executive Director**Tenure:** 1 year, 5 months**Independent:** Yes**Relevant skills and experience:**

- › Significant experience in financial matters, through senior finance positions both in the UK and overseas, latterly as the Group Finance Director of Spectris (from 2006 to 2019)
- › Experience of the engineering sector through his roles at Borealis and as a Non-executive Director at Spirax-Sarco Engineering
- › Detailed knowledge of systems of risk management and internal control

Principal current external appointments:

- › Senior Independent Director and Chairman of the Audit Committee of Breedon Group (since April 2020)
- › Chair of the Audit and Risk Committee of discoverIE Group (since September 2019)
- › Senior Independent Director and Chairman of the Audit and Risk Committee of Trifast (since July 2020)

**DAME HEATHER RABBATTS**

N R RA S

Non-executive Director**Tenure on Board:** 1 year, 5 months**Independent:** Yes**Relevant skills and experience:**

- › Significant operational experience in the local government and the entertainment and sports sectors, in particular
- › Experience of the contracting sector through her previous role as a Non-Executive Director of Crossrail
- › Significant experience of remuneration matters, having served on a number of Remuneration Committees
- › Experience of risk management through her previous role as the Chair of the Audit Committee of Grosvenor Great Britain & Ireland

Principal current external appointments:

- › Non-Executive Director of Associated British Foods
- › Chair of Soho Theatre Company

Board committees key

N

Nomination Committee

S

Safety, Health and Environment Committee

R

Remuneration Committee

RA

Risk Management and Audit Committee

Chair of the Committee

Kier's purpose, strategy and values

The Board is responsible for setting the Company's purpose 'to sustainably deliver infrastructure which is vital to the UK' and the strategy for achieving this. The purpose sets out why the Company exists, the market segments we are in and acts as a guide to everything we do, particularly in relation to sustainability and our market-leading businesses situated across the UK. Our strategic actions are set out on page 12. We continue to be guided by the Company's values in what we do and our culture for how we undertake our activities.

Board principal activities – 2021 financial year

The principal activities held by the Board during the financial year were as follows:

Principal activity	
Strategic actions	› Approved the sale of Kier Living › Approved the capital raise › Received regular updates on our strategic actions
Business/Operational	› Received updates on the progress of our key contracts and projects › Received regular updates on the progress of our Performance Excellence culture and framework › Received regular updates on our health and safety metrics › Received progress updates on our sustainability agenda › Received updates on our IT performance and initiatives and cyber security › Considered the potential impact of the COVID-19 pandemic on the safety of our people, the Group's operations and financial performance › Undertook deep dives into certain business units to understand their markets, customers and key growth drivers
Financial	› Approved the full-year results and the Annual Report and financial statements for the 2020 financial year › Approved the half-year results for the 2021 financial year › Agreed the viability statement as disclosed in the Annual Report › Approved the going concern basis of accounting in preparing the half- and full-year results › Approved the refinancing of the existing Revolving Credit Facility debt facilities › Approved the Group's tax strategy statement › Approved the budget for the 2021 financial year › Regularly reviewed the Group's financial performance and forecasts › Considered the financial position and liquidity headroom in light of the COVID-19 pandemic
Leadership and employees	› Approved the appointment of Alison Atkinson as a Non-executive Director › Reviewed the Group's people agenda including diversity and inclusion, employee engagement surveys, talent and succession planning. › Considered the impact of the COVID-19 pandemic on the health and wellbeing of our people
Internal control and risk management	› Considered and agreed the Group's risk appetite and principal risks › Assessed the effectiveness of our internal controls and risk management systems
Governance and stakeholders	› Considered the output and recommendations from the Board externally facilitated effectiveness review › Discussed feedback from institutional shareholders and analysts › Approved the Modern Slavery Act statement › Received updates on our whistleblowing programme and compliance matters such as anti-bribery and corruption › Received updates on BEIS's consultation on 'restoring trust in audit and corporate governance'

Board and Committee meeting attendance

Details of attendance by each Director at the principal Board and Board committee meetings during the year (shown as the number of meetings attended/potential number of meetings that could have been attended) are as follows:

Director	Board	Board Committee ³	Remuneration Committee	Risk Management and Audit Committee	Safety, Health and Environment Committee
Matthew Lester	11/11	5/5	6/6	–	–
Alison Atkinson ¹	8/8	–	2/2	4/4	2/2
Justin Atkinson	11/11	–	6/6	5/5	3/3
Kirsty Bashforth ²	3/4	–	3/4	1/1	1/1
Andrew Davies	11/11	5/5	–	–	–
Simon Kesterton	11/11	5/5	–	–	–
Dame Heather Rabbatts	11/11	–	6/6	5/5	3/3
Clive Watson	11/11	3/3	6/6	5/5	3/3

¹ Alison Atkinson was appointed to the Board on 15 December 2020.

² Kirsty Bashforth stood down from the Board on 17 December 2020.

³ The Board held additional meetings during the year to discuss, amongst other matters, the sale of the Living business and capital raise, and the effects of COVID-19 on the Group. The Board Committee considered the sale of the Living business and capital raise and results.

Culture

The Board recognises the important role that it plays in assessing and monitoring the Group's culture, so as to ensure that policy, practices and behaviour throughout the Group are aligned with its purpose, values and strategy.

The Operating Framework has further embedded the culture of Performance Excellence as we have reshaped the Group and refocused on our performance and delivery – this includes our pillars of People, Processes, Project Execution, Cash Management and Future of Work.

In relation to Processes and Project Execution, the Board and RMaC has received updates from the Commercial Director, Stuart Togwell and from the Group Managing Directors as to the implementation of Performance Excellence in their businesses including information on each of these pillars.

In addition, during the year at the request of the Chairman, the Group Human Resources Director, Helen Redfern, regularly attended Board meetings to inform the Board of People matters and assist the Board with its oversight of culture in the Company. The reports to the Board (via HR or in other reports such as the Chief Executive's reports) included matters relating to culture such as:

- › Employee surveys
- › Turnover and absenteeism rates
- › Training data
- › Senior recruitment, reward and promotion decisions
- › Whistleblowing, grievance and 'speak-up' data
- › Board interaction with senior management and workforce
- › Health and safety data, including near misses
- › Promptness of payments to suppliers
- › Attitudes to regulators, internal and external auditors and compliance
- › Information from internal audit on the impact of policies and processes.

The Board recognised that the direct interaction with employees through the VLTs had been made more difficult due to COVID-19 issues resulting in Board members not being able to visit as many sites and engage more directly with the workforce as had been intended. The Board was satisfied, through the interaction with the business unit managing directors, the Group Commercial Director and the Group HR Director, that the culture remained appropriate for the Company.

Whistleblowing helpline

In order that employees can report any matters of concern in confidence, the Group makes available an externally-hosted, confidential whistleblowing helpline. During the year, the Group Compliance function continued to take steps to raise awareness of the facility and the Board reviewed reports which provided details of the issues reported to the helpline and how management had investigated them. No issues which were material in the context of the Group were reported to the helpline or via other means during the year. The Chairman will personally be informed of any issues raised concerning any members of the Board or senior management, even if not ordinarily qualifying as being regarded as material, noting that there were no such cases to be advised of in FY21.

Conflicts of interest

The Board has a number of measures to manage conflicts of interest so as to ensure that the influence of third parties does not compromise or override its judgement. For example, the Board's agreement is required before a Director may accept any additional board commitments, whether paid or unpaid, so as to ensure that potential conflicts of interest are identified at an early stage and that the relevant Director will continue to be able to dedicate sufficient time to the Company. For example, during the year, the Board approved a part time mentoring role for the Chief Financial Officer since the engagement was for a small number of hours with an individual at an overseas company with no connection to Kier or its sector.

Stakeholder engagement

The following table provides examples of how the Board engaged with stakeholders during the year and how it took into account this engagement in its decision-making in accordance with s172 of the Companies Act and the requirement under s172 for the Directors to promote the success of the Company with regard to:

- › The likely consequences of a decision in the long term;
- › The interests of the Company's employees;
- › The need to foster the Company's business relationships with suppliers, customers and others;
- › The impact of the Company's operations on the community and the environment;
- › The desirability of the Company maintaining a reputation for high standards of business conduct; and
- › The need to act fairly between members of the Company.

Further information on these are contained in the Strategic Report.

Key stakeholders and form of engagement with them	Resulting impact
 Shareholders (members) › Roadshows held with investors following the release of the results announcements › The Chair of the Remuneration Committee engaged with shareholders on Executive pay and the new Policy › Engagement in relation to the sale of Living › Further engagement in relation to the capital raise with existing and potential new long term investors	› Feedback supported the Board's conclusion as to its principal area of focus – namely, to seek a reduction in net debt › Facilitated the Remuneration Committee's decision-making in relation to both the new remuneration policy and executive remuneration for the 2021 financial year › Helped shape the form and timing of the capital raise
 Banks, lenders, sureties and insurers › The Chief Financial Officer had continued monthly engagement with lenders › The Chief Financial Officer engaged with the lenders in relation to the relaxations to the Group's principal finance facilities › Significant engagement relating to the sale of Living and the capital raise	› Engagement confirmed the need to continue to focus on reducing the Group's net debt and increasing its cash flows › Engagement shaped the progress of the sale of Living and the capital raise including the use of the funds
 Clients › The Chief Executive met a number of the Group's key clients during the year › The Board received feedback on key client relationships via Board reports	› Feedback taken into account when planning future areas of focus for the Group › Informed management's approach to deploying the Group's resources
 Government › The Chief Executive engaged regularly with representatives of the Cabinet Office › The Board oversaw the Group's engagement with the Cabinet Office via its Strategic Supplier programme › Following appointment of the Corporate Affairs Director, she attended the Board meetings and ongoing regular Board reports were received	› Supported the development of the relationship with one of the Group's key clients › Informed management and the Board about the strategic priorities of one of the Group's key clients

Corporate governance statement

Stakeholder Engagement (continued)

Key stakeholders and form of engagement with them

Resulting impact



Employees

- › Members of the Board undertook visible leadership tours to the Group's sites
- › The Group HR Director attended Board meetings during the year to brief the Board on key HR matters
- › Enabled the Board to assess the Group's management of SHE risks
- › Briefings provided the Board with an insight into the Group's culture and the workforce's views



Joint venture partners

- › The Chief Executive developed relationships with the Group's joint venture partners including on the HS2 project and reported on these during regular updates
- › Assisted in the development of working relationships and the plan to mitigate the risks associated with the project



Supply chain partners

- › The Board received updates on the Company's relationship with suppliers and how the Company engaged with suppliers in relation to payment terms
- › The Board oversaw management's engagement with trade credit insurers
- › Assisted management in continuing to drive a reduction in the number of supply chain payment days
- › Enabled management to develop a strategy for engaging with these institutions, which support the Group's supply chain



Pension trustees

- › The Chief Financial Officer engaged with the Trustees of the Group's pension schemes in relation to the Group's performance
- › The Chief Financial Officer engaged with the Trustees in relation to a revised deficit recovery plan
- › The Chief Executive and Chief Financial Officer engaged extensively with the Trustees in relation to the sale of Living and the capital raise
- › Assisted the Board in assessing the schemes' funding requirements prior to discussions relating to the revised deficit recovery plan
- › Enabled the Board to assess an appropriate level of funding for both the Group and the schemes
- › Enabled the sale of Living and capital raise to progress as proposed including agreement on the use of proceeds

Stakeholder engagement examples

Workforce engagement

During the year, the Board further discussed the methods for it to engage with the Group's workforce, as listed in Code Provision 5.

The Group comprises a number of different types of businesses, with locations throughout the UK, and its workforce comprises individuals with a wide range of skills and experience and different perspectives on issues. The Board had agreed, therefore, that it would be difficult for an individual appointed from the workforce or for a single, designated Non-executive Director to represent the views of the workforce to the Board. The Board decided that, in light of these factors, each member of the Board would have responsibility for engaging with the workforce and subsequently reporting back to the Board. The Board agreed that the focus of Directors' visible leadership tours would be extended to address wider employee engagement issues.

The measures implemented as a result of COVID-19 made it difficult for the Board to engage directly with the workforce. A total of nine separate visits were made by the Non-executive Directors, including the Chairman. One such visit was conducted by the Senior Independent Director, Justin Atkinson, to Castlepoint, at the end of June 2021. He had the opportunity to speak to employees directly both informally during the site visit and as part of a question and answer session.

Mr Atkinson reflected that "this was a really good way of carrying out employee engagement: spending an hour with this group of six engaged, responsive and enthusiastic employees was a very useful way of establishing what was on their minds. There was little talk of the past with the focus squarely on how we could improve things going forward".

Where possible, the Board has, in addition to HR and SHEA updates provided, met virtually with various members of staff during Board meetings and in the latter part of the FY21 year at Board meetings held, with a combination of virtually and in-person, appropriately socially distanced in line with Government requirements. The Board welcomes the return to face-to-face meetings with employees.

Shareholders

The Board took into account various stakeholder interests in its decision-making. The Chairman and the Board were kept apprised of the views of shareholders in particular during the sale of the Living business and the capital raise and an example follows of how the views of shareholders were considered by the Board in determining the appropriate course of action.

Managing stakeholder interests

For the capital raise, following discussions and engagement with existing and potential shareholders, it became clear that there were differing views held in relation to various matters including:

- › The maximum amount of equity to be raised – some shareholders requesting it should be higher than the range provided by the Company as this would enable more debt to be paid off and allow new shareholders to obtain more shares but conversely some existing shareholders requesting that it be lower to avoid diluting existing long-term shareholders.
- › The discount to the share price should be greater to ensure high levels of take up and conversely the discount should be lower to avoid existing shareholders having to invest further large amounts, having suffered losses in prior years.

These views were considered by the Board, as well as the interests of retail shareholders and other stakeholders, and advice received by the Board from its brokers and advisers and taken into account during the setting of the capital raise terms.

After the Board considered these views, the terms of the capital raise were set at a level that the Board thought would retain existing large institutional shareholders but also encourage significant new investment from high-quality, long-term equity investors.

The Board was pleased with the support shown for the capital raise and the strengthening of the share price that followed both the announcement and the capital raise itself.



Chair

Clive Watson

Other Committee members

Alison Atkinson
(from January 2021)
Justin Atkinson
Heather Rabbatts
Kirsty Bashforth
(to December 2020)

“During the year, the Committee has focused on continuing to develop the Group’s core systems of risk management and internal control and has overseen the financial matters relating to the sale of the Living business and the capital raise.”

CLIVE WATSON

Chair

Role

The role of the Committee includes:

- Monitoring the Group’s financial reporting procedures and the external audit;
- Reviewing the integrity of the Group’s financial statements and challenging significant financial and other judgements;
- Reviewing the adequacy and effectiveness of the Group’s risk management and internal control systems;
- Advising the Board on the emerging and principal risks facing the Company (including those that would threaten its business model, future performance, solvency or liquidity), the identification of emerging risks and the management and mitigation of such risks;
- Reviewing the effectiveness of the Group’s Internal Audit function, agreeing the list of audits to be conducted each year and reviewing the results of those audits; and
- Reviewing the independence and objectivity of the external auditor, assessing its effectiveness and approving the provision of non-audit services.

The Committee undertakes these significant tasks on behalf of the Board and provides independent oversight on financial matters. This also frees the Board’s available time to focus on strategic matters in line with its duties and responsibilities and matters reserved.

Dear shareholder

I am pleased to present the 2021 Risk Management and Audit Committee (‘RMaC’) report.

The Group has experienced significant change over the past year: there have been a number of new appointments at senior management level, and, to support the delivery of its strategic actions, the Group has embedded a number of core processes and disciplines. In addition, the year saw the Committee oversee management’s proposals and delivery of the sale of its Living business and the capital raise, both Class 1 transactions requiring shareholder approval and significant stakeholder engagement.

The Committee continued to focus on the internal control environment at Kier. Work has continued by management and the Committee to embed the improvements required as I outlined in my report last year. In addition, the Committee continues to work closely with the internal and external auditors, including the co-sourced internal auditors, Deloitte, to develop the overall effectiveness of the Group’s internal controls and risk management systems as well as financial reporting processes.

Committee meetings

In line with UK Corporate Governance Code recommendations, the Committee is constituted with Independent Non-executive Directors to provide shareholders and other stakeholders with assurance that oversight, and where appropriate, challenge is appropriately provided. Accordingly, in order that the Independent Directors provide such oversight, an understanding of complex accounting and financial matters is required from at least one member of the Committee by having recent and relevant financial experience. As a chartered accountant, and having formerly been the Finance Director of a listed company and as a result of my experience as the Chair of the Audit Committees of other listed companies, I am considered by the Board to have such experience and competence in accounting and auditing. In addition, Justin Atkinson is also a qualified accountant and Heather Rabbatts has previously been Chair of the Audit Committee of Grosvenor, the property group.

The following also attended Committee meetings at the request of the Chair to assist the Committee:

- the Chairman, the Chief Executive, Chief Financial Officer and the Group Commercial Director;
- the Group Financial Controller and representatives from PwC; and
- the Group Head of Risk and Internal Audit, other members of the Risk and Internal Audit function and representatives from Deloitte, the Group’s co-sourced internal audit services provider.

Deloitte became the co-source internal auditor during the year following a tender process overseen by the Committee.

Outside of the formal meetings, I had discussions with members of management (including the Chief Financial Officer and the Group Financial Controller) and with our external auditor.

Due to the significance of the matters considered, the Committee met five times during the year (primarily via video conference). Details of attendance at those meetings are set out on page 81. The Board was provided with an update on the principal matters arising at those meetings and part of the December Board meeting was devoted to discussing various RMaC matters. During the year, we determined to reinstate a fourth scheduled meeting in the year in line with the Company’s financial calendar.

Principal activities – 2021 financial year

The principal agenda items of the Committee meetings held during the year were as follows:

September 2020

- Review of the Group's FY20 results, external audit findings and ancillary matters with particular focus on going concern and accounting for adjusting items
- Review of the assessment of Group's systems of risk management and internal control

December 2020 – Board meeting

- Evaluation of the effectiveness of the internal and external auditors
- Progress against the FY21 internal audit plan
- Risk management update (including review of corporate risk register)
- Deloitte Risk Controls and Assurance Framework Assessment and development of roadmap of actions
- Appointment of Deloitte as co-source internal audit partner as from 1 January 2021

March 2021

- Review of the Group's FY21 interim results and findings from the external auditor review (and ancillary matters)
- Progress against the FY21 internal audit plan
- Progress against Deloitte Risk Controls and Assurance Framework actions
- Risk management update (including review of corporate risk register)

June 2021

- FY21 external audit strategy
- 2021 Annual Report timetable
- Risk management update (including review of corporate risk register)
- Progress against Deloitte Risk Controls and Assurance Framework actions
- Progress against the FY21 internal audit plan, approval of FY22 internal audit plan and review of internal audit resources
- Approving the non-audit services policy for FY22
- Review of BEIS proposals on 'Restoring trust in audit and corporate governance'
- Review of FRC letter enquiries for the 2020 accounts and management's response

Board statements

Information on the work to support the Board's statement on the Group's systems of risk management and internal control is set out under 'Systems of risk management and internal control – Effectiveness review' on page 88, information on the work to support the going concern statement is set out under 'Going concern' on pages 47 and 48 and information on the work to support the viability statement is set out under 'Viability statement' on pages 48 and 49.

Systems of risk management and internal control

General

The Board has ultimate responsibility for the Group's systems of risk management and internal control, including those established to identify, manage and monitor risks. The Board has delegated the responsibility for overseeing management's implementation of those systems to the RMaC.

The Group Head of Risk and Internal Audit, who has direct access to the RMaC and its Chair, reports to the RMaC on strategic risk issues and oversees the Group's risk management framework. The Group Risk Committee provides executive management leadership and oversight of the Group's risk management framework and to act as a link between the RMaC and the business in relation to the management of risk.

Information on how the Group identifies, manages and monitors risks, including a description of the principal aspects of the Group's systems of risk management and internal controls and the risk management framework, are set out on pages 32 to 36.

Effectiveness review

The Board conducted its formal annual review of the effectiveness of the Group's systems of risk management and internal control following management's assessment of the key elements of these systems, taking into account the FRC's Guidance. A summary of the review is as follows:

Area of review	Summary of the review's findings
The application of the Group's risk management processes in practice	Increased rigour has been introduced to the Group's management of contract risk and this is embedded into the business units' methodologies
The business units' approach to financial reporting	Greater accuracy over forecasting has been applied
The Group's approach to identifying and managing risk	Greater formality has been embedded
The application of the Group's framework of internal control	The introduction of the Operating Framework added resilience
The approach to reviewing the Group's systems of risk management and internal control	The internal audits undertaken during the year covered a number of key elements

One of the Committee's principal areas of focus for the 2022 financial year will be to oversee the continued development of the Group's systems of risk management and internal control and development of the Internal Audit function under the co-sourced model as described in the following section.

In addition, as we consider the BEIS proposals including the potential adoption of a 'UK Sarbanes-Oxley' regime, we will keep under review the potential changes and how the Company prepares for these changes.

Internal audit

Internal audits – 2021 financial year

During the year, the Committee monitored progress against the 2021 internal audit plan and the tender for the appointment of Deloitte as co-source provider. Results from these audits were discussed by the Committee, together with the follow-up actions taken by management.

During the year, seven internal audit assignments were completed by the in-house internal audit team and six by Deloitte. These audits covered a range of areas, including health & safety site operating procedures to maintain COVID-19 compliance, purchase to pay (including company purchasing cards) & order to cash financial controls, user access rights & segregation of duties and IT cyber security. Other elements of the Group's internal control environment were selected for review so as to assess the Group's exposure to its principal risks and uncertainties and develop ways to remedy any identified weaknesses in the Group's systems of risk management and internal control. Before each audit, the scope of review, timetable and resources required were agreed with management. Updates were provided to management and members of the Committee on the status of ongoing audits at Committee meetings during the year.

Internal audits – 2022 financial year

The internal audit plan for the 2022 financial year is designed to assist management, the Committee and the Board to manage or mitigate the principal risks and uncertainties relating to the Group. The Committee had agreed the internal audit plan in June 2021 and will monitor progress at each of its scheduled Committee meetings.

During the 2022 financial year, 16 internal audit assignments are expected to be conducted, including the following areas:

- › Compliance with the Group's health & safety procedures;
- › Compliance with the Group's commercial standards, including project life cycle management and Performance Excellence for a number of key commercial contracts;
- › Climate change & sustainability;
- › Certain aspects of the Group's financial controls; and
- › Design, operation and monitoring of certain of the Group's compliance policies.

Further details of the audits conducted during the 2022 financial year will be included in the 2022 Annual Report.

Internal Audit and Group Finance have established a working group in order to manage the Group's readiness for implementing changes to the organisation's internal control environment arising from the BEIS report when finalised. Additionally, the Internal Audit Plan for the 2022 financial year includes advisory work to assist with design of methodology and validation of the Group's key financial controls self-assessments.

Internal Audit function effectiveness

To assess the effectiveness of the Internal Audit function, members of the Committee and senior management completed a questionnaire addressing various aspects of the Internal Audit function's performance. The feedback was reviewed by the Committee at its meeting in December 2020.

The Committee concluded that, overall, the Internal Audit function was operating effectively within its remit. A summary of the results of the review is as follows:

Strengths

- › Risk-based audit approach, working efficiently to address the primary risks of the Group
- › The function is independent of the business and has unfettered access to the Committee
- › Insightful reports and value-added agreed management actions.

Future areas of focus

- › Increasing investment in the Internal Audit function to make the Internal Audit Annual Plan more robust and less limited in scope
- › Implementation of technological advances to support the delivery of audits
- › Consider the Internal Audit staffing strategy
- › Continue to build on industry sector knowledge.

Financial reporting

The Group has clear policies and procedures which are designed to ensure the reliability and accuracy of financial reporting, including the process for preparing the Group's interim and annual financial statements. The Group's financial reporting policies and procedures cover financial planning and reporting, preparation of financial information and monitoring and control of capital expenditure. The Group's financial statements preparation process includes reviews at business and Group levels. The Committee reviewed the accounting judgements, assumptions and estimates as set out in the papers prepared by management and determined, with the input from the external auditor, the appropriateness of these. The significant issues considered by the Committee in relation to this year's financial statements are listed on page 91.

Engagement with the FRC

In May 2021, the Company received a letter from the Financial Reporting Council ('FRC') requesting further information in three principal areas following a review of the Group's 2020 Annual Report and Accounts. The FRC requested further information in relation to deferred taxation, the cash flow statement and the presentation of Alternative Performance Measures in the Strategic report regarding free cashflow and movements in debt.

Following provision of the information requested, the FRC closed its enquiry in July 2021. Disclosure observations made by the FRC were given full consideration and additional disclosures are included in this Annual Report and Accounts where material or relevant to do so.

One observation made by the FRC was to highlight that in the 2020 Annual Report and Accounts, loan repayments from joint ventures were incorrectly classified as a financing activity as opposed to an investing activity in the Group's consolidated cash flow statement. This has been corrected in this Annual Report and Accounts, with prior year comparatives represented accordingly. Further detail on this is given in note 1 to the consolidated financial statements.

The FRC's review was based on the 2020 Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by FRC staff with an understanding of the relevant legal and accounting framework. The review carried out by the FRC provides no assurance that the Annual Report and Accounts were correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

External audit

The external auditor, PwC, informed the Committee that the Audit Quality Review function of the Financial Reporting Council (the FRC) which reviews the audits conducted by external auditors, had selected PwC's audit of the Company's 2019 financial statements for review. The report which was issued in December 2020, found certain aspects for improvement. The Company and PwC responded separately to the FRC and have worked closely on the matters raised by the FRC. PwC took into consideration the FRC's preliminary findings and incorporated these in the audit of the 2020 financial statements. The Committee is satisfied that the recommendations by the FRC have been reflected in the PwC audit process.

2021 audit

The following table summarises the key steps taken by the Committee in overseeing the 2021 external audit by PwC:

Event	Matter	Actions taken by the Board/the Committee
June 2021 Committee meeting	› PwC's 2021 audit plan › PwC's resources › PwC's audit risk assessment › Materiality level for the audit › Timetable for the Annual Report and audit plans, key areas of focus › BEIS proposals and potential impact on future audits	› Agreement in principle on the timetable and likely areas of focus › Confirmation that the Company would respond to the consultation (submitted in June 2021) and keep under review the BEIS proposals as they progress and implications for the Company
September 2021 Committee meeting	› Review the audit plan › 2021 audit fee › Going concern and viability statements › Audit findings, significant issues and other accounting judgements › Management representation letter › Independence	› Reviewed progress against the plan discussed in June › Agreed the final audit fee › Discussed the statements with PwC and management › Discussed the audit findings with PwC and management › Approved the representation letter, following a review by management › Noted PwC's independence

2021 Annual Report financial statements – significant issues and other accounting judgements

Following discussions with management and PwC, the Committee and the Board determined that the significant issues and other accounting judgements relating to the 2021 financial statements are as shown in the table below.

Significant issues and/or accounting judgements	Action undertaken by the Committee/the Board
Going concern	In conjunction with PwC, the Committee and the Board reviewed and assessed the work undertaken to support the adoption of the going concern basis for the 2021 financial statements. In particular, the Committee and the Board reviewed the Group's cash flow forecasts over the period ending 31 December 2022 which are included in the Group's three-year strategic plan and the assumptions on which such forecasts are based. The Committee and the Board also considered the stress-testing of these forecasts for severe but plausible downside scenarios that could have an impact on the Group and the availability of mitigating actions, in the event that such scenarios occurred. The Committee noted that the completion of corporate actions, together with the extension of the Group's RCF facility had significantly de-risked this assessment compared to the previous year. For further information on the work to support the going concern basis of preparation for the 2021 financial statements, please see 'Going concern' on pages 47 and 48.
Contract accounting	The Group has significant long-term contracts in the Infrastructure Services and Construction businesses. Accounting for long-term contracts has continued to be a key area of focus for the 2021 audit. An assessment of the likely profit on long-term contracts requires significant judgement because of the inherent uncertainty in preparing estimates of the forecast costs and revenue. Recoverability of work-in-progress on long-term contracts involves significant estimates, including an estimate of the end-of-life outcome of the projects. During the year, the Board reviewed management's latest assessment of the forecast costs of, and revenues from, certain of the Group's long-term contracts and the Committee and the Board discussed PwC's review of management's assessment of the performance of certain of the Group's contracts so as to satisfy themselves as to the positions taken in the 2021 financial statements.
Presentation of the Group's financial performance	As stated in its accounting policy, the Group has an alternative performance measure of 'adjusted operating profit' which is consistent with the measures used by management to assess the Group's financial performance and aid the understanding of the performance of the Group. The Committee and the Board (i) reviewed the individual items excluded from adjusted operating profit, and (ii) agreed the classification of, and disclosures relating to the adjusting items presented in the 2021 financial statements, ensuring that APMs are presented with equal or lesser prominence than statutory figures and on a consistent basis year-on-year.
Impairment of goodwill	The review of the carrying value of goodwill in Infrastructure Services was identified as a key area of focus for the 2021 audit. Having discussed the review with management and PwC, the Committee and the Board agreed that, although there was no requirement to take an impairment charge with respect to the Infrastructure Services business, specific disclosures would be included in the notes to the 2021 financial statements as to the potential sensitivity of the available headroom in the impairment model to changes in key assumptions.
Carrying value of development inventory	PwC reviewed and evaluated management's assessment of the net realisable value of inventory in the Property business at 30 June 21. In particular, PwC focused its work on the Group's £39.1m of commercial property development inventory on the Group's balance sheet and a further £172m of work in progress held in the Group's joint ventures. Following PwC's review of management's assessment of the inventory in the Property business, the Board and the Committee were satisfied with the carrying value of inventory at 30 June 2021.
COVID-19	The Group has continued to deal with the impact of COVID-19 throughout the period, although there has been less impact than the previous year. The Board and the Committee worked with PwC and management to ensure that its effects were appropriately reflected in the Group's financial statements; and also considered as part of the review of future forecasts that support the assessments for going concern, goodwill and the carrying value of deferred tax.
Carrying value of investments in Kier Limited	In light of the carrying value of the Company's investment in its principal operating subsidiary, Kier Limited, relative to the Company's market capitalisation, the carrying value of this investment was identified as a key area of focus for the 2021 audit. Following PwC's review, the Board and the Committee concluded that no impairment was required against the carrying value of the investment held by the Company in Kier Limited.

2021 Annual Report – fair, balanced and understandable statement

At its meetings in September 2021, the Board and the Committee discussed the ‘fair, balanced and understandable’ statement and the work undertaken to support it, which included:

Who?	How assurance was provided
Annual Report working group	The working group comprised individuals involved in the drafting of the Annual Report Material disclosure items were discussed by the working group The working group members reviewed the sections drafted by them in light of the ‘fair, balanced and understandable’ requirement
Key contributors to the Annual Report	Certain key contributors to sections of the Annual Report (for example, managing directors and finance directors within the business) were asked to confirm the accuracy of the information provided
External review	Feedback was provided by PwC, and Willis Towers Watson, who reviewed the Directors’ Remuneration Report, to enhance the quality of our reporting
The Committee and the Board	Drafts of the Annual Report were circulated to individual members of the Board, the Committee and the full Board for review

2021 Annual Report – effectiveness and performance

External auditor effectiveness and audit quality

The UK Corporate Governance Code requires the Risk Management and Audit Committee to undertake an annual assessment of the effectiveness of the external audit. This was performed through the use of a questionnaire which was issued to key stakeholders, including members of the Committee and those involved in the FY20 audit.

The review and qualitative assessment focused on feedback and insights, planning and communication, and the quality and experience of the audit team. The Committee considered the feedback received and its wider knowledge and concluded that the external audit process for the FY20 financial year was effective and that PwC provided an appropriate independent challenge to management.

As part of this review, PwC and management jointly identified a number of areas of focus which have been used to develop an audit improvement plan for the 2021 financial year. It also recognised the importance of maintaining the continuity of the audit team, whilst recognising that in some instances, rotation of key individuals is required under independence rules.

The Committee will formally assess PwC’s performance in relation to the 2021 audit following its completion. A resolution to re-appoint PwC as the external auditor will be proposed at the 2021 AGM on 19 November.

External auditor independence and non-audit services

During the year, PwC provided certain non-audit services to the Group. The Committee monitors these services to ensure that the associated fees are not of a level that would affect PwC’s independence and objectivity. The limits of authority within the policy are:

Fees	Approval required
Up to £10,000	May be authorised by the Chief Financial Officer on individual assignments (not exceeding £50,000 in any financial year)
Above £10,000	Must be approved in advance by the Committee. Where approval is urgently required, this may be provided by the Chair of the Committee (subject to the subsequent reporting of the approval to the Committee)

The Company’s non-audit services policy reflects the FRC’s revised Ethical Standard for Auditors (2019). The policy, which was last reviewed by the Committee in June 2020, provides that the Committee expects that the level of non-audit fees in any one financial year will not exceed 15% of the audit fees payable in relation to the previous year. The Committee may approve non-audit fees in excess of this figure, up to 70% of the average of audit fees paid in the previous three years, subject to the Committee being satisfied that (i) there is clear evidence that the auditor’s skills and experience make it the most appropriate firm to provide the relevant services and (ii) the auditor’s independence and objectivity would not be compromised by the appointment.

The total non-audit fees paid to PwC in FY2021 were £1,930,000. These non-audit fees related to PwC’s work in relation to the review of the Group’s 2021 half year results (£475,000) and its engagement as reporting accountants in relation to the sale process for the Group’s Living business (£750,000) and the capital raise (£705,000). PwC was engaged as reporting accountants for the sale process because it had recently provided similar services to the Group. The total non-audit fees subject to the FRC’s 70% non-audit fee cap, which excluded amounts attributable to public reporting workstreams required by legislation, was £1,710,000. This represented 64% of the average audit fees over the previous three years.

The Committee concluded that PwC’s independence and objectivity were not compromised by the provision of these services.

PwC first audited the Group’s financial statements in the 2015 financial year. Andrew Paynter was appointed as the lead audit partner in January 2019. As part of the FY21 audit, PwC confirmed that it was independent within the meaning of applicable regulatory and professional requirements. Taking this into account, and having considered the steps taken by PwC to preserve its independence, the Committee concluded that PwC continues to demonstrate appropriate independence and objectivity.

Committee performance

During 2021 the Committee continued to implement the areas of development identified in the prior year including providing oversight and challenge in relation to the following specific areas:

- › Progress against the internal audit plan and resources required;
- › The continued development of the Group's systems of risk management and internal control, applying the 'three lines of defence' model;
- › The resilience of the Group's plans to manage Brexit-related issues; and
- › The management of the risks associated with the effects of COVID-19.

As outlined earlier in the report, good progress was made in each of these areas in the year. In addition, the resourcing of the internal audit team and the strengthening of the systems of internal controls and risk management are areas that will continue to be reviewed by the Committee in the FY22 year.

2021 review

The external review was undertaken by Clare Chalmers, an expert practitioner in assessing and improving board effectiveness. She found that:

- › The composition of the Committee was strong, with new independent Non-executive Directors and Chair having relevant financial experience.
- › The number and intensity of meetings had increased in line with requirements and there was more time allowed for risk and internal audit matters on the agenda.

Recommendations were made to:

- › Review the structure and rigour of the papers and make more use of pre-meetings to agree key areas of focus and themes for discussion;
- › Encourage the members of the Committee to bring more of their experience from other companies to the discussions; and
- › Further increase time allocated for Risk and Internal Audit matters and the development of the 'three lines of defence' model.

The Committee will report on progress in the 2022 Annual Report.

CLIVE WATSON

Chair of the Risk Management and Audit Committee

15 September 2021



Chair

Alison Atkinson

Other Committee members

Justin Atkinson
Heather Rabbatts
Clive Watson
(Kirsty Bashforth to
December 2020)

“ It is a credit to our SHE and HR teams that so many of the Group's people successfully adapted their working practices and operated safely during COVID-19, whether on site or working remotely.”

ALISON ATKINSON

Chair

Role

The role of the Committee in the year included:

- › 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; and
- › Reviewing the Group's exposure to SHE risks and monitoring performance against SHE targets.

During the course of the year, the Committee has considered its role and recommended to the Board changes to the Terms of Reference such that the Committee be responsible on behalf of the Board for considering, and developing, the wider Environmental, Social and Governance framework for the Company, to include upcoming legislative and reporting requirements.

This is a significant development of the role of the Committee from previously being focused on health and safety and related matters. I would like to thank the previous Committee Chair and members and management for their work in this area noting that health and safety will always remain a key focus for the Committee and for the Group. Going forwards though this Report will therefore focus on ESG matters, reflecting its broader remit. It is expected that further meetings will be held by the Committee to allow it to fulfil this role.

Dear shareholder

I joined the Board in December 2020 and in the last six months have been focused on maintaining and improving the Group's long-term performance in safety; reflected by the exemplary performance the Group has managed given the impact of the COVID-19 pandemic during the financial year.

It is a matter of deep regret that an employee of one of our subcontractors suffered a fatality at one of our sites in our International business in UAE in August 2020. The Committee oversaw our response to the accident and our liaison with all its relevant local authorities and stakeholders to ensure that the teams were supported and that any lessons learned were embedded in the Group operations.

The Committee has maintained its focus on overseeing the consolidation of the Group's wider safety culture and performance, with employee health and wellbeing being a particular area of focus during the year. Safety has a clear foundation in the operating performance culture: and alongside this the updated sustainability strategy 'Building for a Sustainable World' has been launched to support the Group's ambition in positive environmental and societal impact as a good corporate citizen.

To enable the Group to continue to operate during the pandemic, the Committee oversaw management's implementation of the Group's site operating procedures, which were based on and reflected current Government guidelines. It is a credit to our SHE and site-based team that so many of the Group's projects have been able to adapt their working practices to continue to operate safely during COVID-19.

Committee composition and meeting attendance

The names of the members of the Committee are set out above. The Group Chairman, the Chief Executive and the Group SHEA Director also attended the Committee's meetings during the year.

The secretary of the Committee is the Company Secretary.

The Committee met three times during the year; details of attendance at those meetings are set out on page 81.

Principal activities – 2021 financial year

Safety

Health and safety remains our licence to operate and we continue to embed best practice and make conditions as safe as possible for our workforce.

- › The Group's 12-month rolling Accident Incident Rate ('AIR') of 105 and 12-month rolling All Accident Incident Rate ('AAIR') of 332 represents increases of c.21% and c.9% respectively compared to FY20.
- › Looking at the long-term trend, the Group's AIR and AAIR have both decreased by c.50% compared to five years ago.

The Group has introduced a new Severity Weighted Incidence Rate in 2021 which measures the impact of a wider number of safety measures as a leading indicator as a future benchmark.

The Committee oversaw management's response to the increase in the Group's AIR and the AAIR during the latter part of year, which included: requiring site teams to re-focus on the basics of safety management, emphasising the need to adopt appropriate behaviours, alongside processes, when managing safety risks and continuing to ensure the sharing of learnings from safety incidents. During the year, the Committee invited members of management to attend Committee meetings to review incidents and near misses.

Prior to the COVID-19 pandemic members of the Board and the Committee regularly undertook visible leadership tours ('VLTs') in order to gain an insight into operating practices, meet those working on site and further build their understanding of, and gain assurance about, the Group's SHE practices and culture. In the 2021 financial year due to the prevailing Government guidance, Non-executive members of the Board could only conduct limited visits, conducting nine such visits, including to the following projects: Pirbright, Huntingdon Crematorium, Jodrell Bank, RAF Lakenheath and NHS Golden Jubilee.

Health

The health, both physical and mental, of our employees remains a key area of focus for the Committee and management, particularly so during the COVID-19 pandemic. During the year, the Committee continued to monitor the reasons for sickness absence, including positive cases of COVID-19 and self-isolation due to close contact notifications. The Group introduced Occupational Health referral for suspected cases of long COVID and continue to monitor the potential impact of this on its employees.

During the 2021 financial year, the Committee has put an emphasis on the steps taken by management in relation to key health issues such as mental health, depression, anxiety and musculoskeletal disorders. The Committee also monitored the steps taken to manage the cost of sickness absence, overseeing a reduction in the average monthly cost during the year.

Environment

The Group launched its updated sustainability framework 'Building for a Sustainable World', the principal purpose of which is to create a strategy to embed a focus on environmental and sustainability issues within the Group. This strategy is expected to take up to five years to implement and the Committee proposes to monitor its progress over this time. Further information is set out on pages 50 and 68.

Committee meetings

The following matters were considered by the Committee at each meeting during the year:

Matters	Consideration
Key incidents	The Committee reviewed reports about material safety or environmental incidents The Managing Director for Middle East attended the Committee's meeting in September 2020 to report on a fall from height resulting in the fatality of a subcontractor
SHE performance	The Committee reviewed the Group's SHE performance against KPIs relating to the AIR and the AAIR, VLTs undertaken by management, high potential incidents, construction waste, carbon emissions, sickness absence and drugs and alcohol testing
VLTs	The Committee discussed feedback from Committee members' VLTs

During the year, the Committee's other activities included:

Matters	Consideration
Health and wellbeing	The Committee discussed: - Steps taken by management to reduce the cost of sickness absence - The Group's management of mental health issues in the workplace - Drugs and alcohol testing, overseeing the appointment of a new, external provider of testing services - Various health and wellbeing initiatives implemented throughout the Group

Matters	Consideration
Environmental	The Committee: - Oversaw progress against the Group's environmental strategy - Oversaw management's implementation of certain environmental campaigns
Safety	The Committee: - Oversaw management's implementation of measures to mitigate against COVID-19 - Reviewed the Group's safety performance against a series of leading indicators

Committee performance evaluation

2020 evaluation – progress made

In the 2020 financial year, and as summarised above, the Committee oversaw the approach to the management of mental health issues within the Group's workforce and the launch of the new 'Building for a Sustainable World' framework.

Areas of focus for the Committee in 2021

The Board agreed the following principal areas of focus for the Committee in the 2021 financial year:

- Oversee the operation of the Group's policies and practices relating to safety and the health and wellbeing of its workforce, in the light of COVID-19; and
- Oversee the implementation of the 'Building for a Sustainable World' framework.

The external evaluation in 2021 by Clare Chalmers noted that:

- Kier has driven forward its sustainability agenda in the last two years with the Committee being strengthened by the new Committee Chair and with a high level of interest, and good participation and questioning, from the Non-executive Directors.
- The change to the ESG Committee with a broader focus was welcomed but that health and safety issues should still retain the same level of emphasis within the Group.

It was suggested that:

- Internal and external messaging regarding the Committee be given consideration;
- Papers, particularly for health and safety matters, could include a forward look element and give a broader context to the issues; and
- Focus should remain on the cultural drivers needed around safety and sustainability, but also consider community related matters.

Conclusion

The Committee has in the last nine months progressed with its oversight of the key health and safety elements and is moving towards an integrated ESG platform for the Committee to have a broader remit to focus on the key environmental and social aspects of the Group, including health and safety. Health and safety will remain central to how the Company operates to achieve its purpose but that purpose also encapsulates the wider Environmental and Social aspects and the Governance of these that the Committee will oversee going forwards in its revised guise.

ALISON ATKINSON

Chair of the Safety, Health and Environment Committee

15 September 2021



Chairman
Matthew Lester

Other Committee members

Alison Atkinson
(from January 2021)
Justin Atkinson
Heather Rabbatts
Clive Watson
Kirsty Bashforth
(to December 2020)

“As part of the diversity policy, Kier will develop and implement policies, programmes and initiatives designed to promote diversity and inclusion at all levels of the organisation, with a clear goal of having a workforce that is representative of society, including at a senior management level.”

MATTHEW LESTER
Chairman

Role

The role of the Committee includes:

- › to provide a formal, rigorous and transparent procedure for the appointment of new Directors to the Board;
- › maintain an effective succession plan for the Board and senior management; and
- › oversee the development of a diverse pipeline for succession to these bodies.

Dear shareholder

The Nomination Committee considered the appointment to the Board of Alison Atkinson in December 2020 and the independent external Board and Committee review by Clare Chalmers.

In relation to Board composition, as Board members had been appointed within the previous two years, no further changes were proposed. In the FY22 year, however, the size, composition and diversity, including skills, of the Board will be considered further.

In relation to senior management, the Committee noted the changes during the year to the Executive Committee including the appointment of Leigh Thomas as Group Managing Director, Property and the appointment of two new members: Sophie Timms, Corporate Affairs Director and Alpa Amar, Corporate Development Director. In addition to the welcome diversity of the appointments at senior management level, the Board believes that the appointments of Corporate Affairs Director and Corporate Development Director, will bring additional resource and perspective to the Executive Committee in particular for Government relations, internal and external communications aspects, strategy and corporate development.

Below is further information on our diversity policy and our induction programme for new Directors to gain an understanding of the Company, particularly of the business drivers and its culture, upon joining the Board.

Diversity policy

Policy

The Company has a Board diversity policy. Diversity includes diversity of skills, background, knowledge, experience and perspective, amongst a number of factors. In particular, the Board recognises the role that gender diversity has to play in contributing to the Board's perspective and decision-making. As part of the diversity policy, Kier will develop and implement policies, programmes and initiatives designed to promote diversity and inclusion at all levels of the organisation, with a clear goal of having a workforce that is representative of society, including at a senior management level.

The diversity policy has been implemented for example through consideration of shortlisting candidates and instructing search firms to take such diversity into account for shortlisting before putting candidates forwards. Accordingly, candidate lists reflected the benefits of diversity and priority was to be given to search firms which have signed up to the Voluntary Code of Conduct for Executive Search Firms.

Lygon, a signatory to the code, was instructed to identify a diverse list of potential candidates for the Non-executive role search in the year. Alison Atkinson was appointed from a wide pool of candidates.

In terms of senior executive roles, the Board is keen that this area is also developed and is committed to increasing the number of women in senior positions. The appointment to the Executive Committee of two women was welcomed.

The Board is conscious of the FTSE 350 target of 33% representation on boards and leadership teams. 29% of the Board, 27% of the Executive Committee and 37% of direct reports to the Executive Committee are women.

The Board's policy on diversity and inclusion requires the Company to develop and implement policies, programmes and initiatives which are designed to implement diversity and inclusion at all levels of the organisation, including at senior management level.

During the 2022 financial year, the Board aims to refresh its focus on diversity and inclusion, with one of its aims being to develop a diverse pool of internal candidates for future Board and Executive Committee roles.

Induction to the Board

Board induction for new Director

The Board has a tailored induction programme for new Directors, with the assistance of the Chairman, Executive Directors and Company Secretary. For Alison Atkinson, appointed in December 2020, although a key focus was on SHE matters as the incoming Chair of the SHE Committee, due to the pandemic, this meant that fewer physical visits than usual took place. However, meetings were held virtually with key individuals in the Company and advisers including on SHE matters. In addition to the meetings and video calls, the Company Secretary provided information of the particular requirements and sources of further information relevant to being a Director of a listed company, including legal and regulatory matters and corporate governance. Assistance was also offered for other areas that the Director may wish to obtain further information on.

Board review – 2020 progress against feedback

The 2020 internal Board evaluation highlighted a number of areas of focus for the Board as follows.

Area of feedback	Specific areas of focus for 2021	Progress made in 2021
Implement conclusions of strategic review	Reduce the Group's net debt	Proceeds of the capital raise used to repay debt and strengthen the balance sheet
Dispose of non-core businesses	Simplify the Group	Sale of Living concluded
Focus on cost reduction programme	Deliver the targeted headcount reductions	Headcount reductions successfully implemented
	Deliver the targeted cost reductions	Cost reductions through contract discipline continues to be embedded

2021 Board review

The process

The 2021 Board evaluation was led by the Chairman, with the assistance of the Company Secretary. It focused on the following areas:

- › Board composition and culture
- › Board oversight
- › Stakeholders
- › Board efficiency
- › The Committees

The review was deliberately forward looking as to how the Board and Committees may improve further. To this end, interviews were conducted with Directors and key stakeholders who interacted with the Board, reviews were undertaken of Board and Committee papers and administration and attendance at Board and Committee meetings in June 2021 as observers.

Conclusions

The results of the Review were discussed with the Chairman and presented to the Board in person by Clare Chalmers at its meeting in August 2021. The Board discussed the key findings and suggestions and agreed to implement the majority of these but considered that certain suggestions were not appropriate for the Board at this time, such as Committee membership changes and workforce engagement methods. These would however, be kept under review.

The principal areas of focus that the Board would develop in FY22 included:

- › Consideration of the appointment of a further Non-executive Director
- › Continue to enhance diversity and inclusion, both on the Board and throughout the Company
- › The Nomination Committee should formalise, with regular agenda items covering Board succession planning and Executive succession planning
- › The Non-executive Directors should aim to make up for lost time with site visits, and should make sure they have had a thorough induction to different parts of the business.

Quote from Clare Chalmers:

"The overall impression is that the Board and Committees have made great strides forward since 2019. There is much greater focus on Risk Management, Internal Audit, HR and People topics, and performance oversight. The Board benefits from an engaged group of independent Non-executive Directors who bring diversity of thought and background, while changes of personnel throughout the organisation have ensured the Board is better supported by management."

"Overall, I was pleased with the Board review and discussions that resulted from it. There were no major surprises in the review and the forward looking focus had been appropriate and welcomed. Accordingly, the suggestions were ones that the Board, the Chairs of the Committees and management considered prudent and would adopt to continue improvement of the Board and its Committees' performance in FY22."

MATTHEW LESTER

Chair of the Nomination Committee

15 September 2021



Chair

Heather Rabbatts

Other Committee members

Alison Atkinson
Justin Atkinson
Matthew Lester
Clive Watson

“The Committee's approach to remuneration seeks to support the strategy and promote long term success, aligned to our purpose and values and clearly linked to the successful delivery of the company's long term strategy by the Executive Directors and Senior Management.”

HEATHER RABBATTS

Chair

Role

The role of the Committee includes:

- › Setting the remuneration policy relating to the Executive Directors and the Non-executive Directors;
- › Setting the remuneration of the Chairman, the Executive Directors and senior management;
- › Reviewing workforce remuneration and related policies;
- › Approving the design of, and determining targets for, any annual bonus schemes applicable to the Executive Directors and senior management;
- › Approving annual bonus payments made to the Executive Directors and senior management;
- › Approving the design of, and determining the performance measures for, all share or share-based plans applicable to the Executive Directors and senior management;
- › Reviewing the vesting of all share or share-based plans applicable to the Executive Directors and senior management;
- › Considering payments to former Directors to ensure that they are within the terms of the remuneration policy;
- › Engaging with our investors on remuneration matters and maintaining awareness of broader investor expectations and best practices; and
- › Appointing remuneration consultants and setting their terms of reference.

Dear shareholder

On behalf of the Board, I am pleased to present the annual statement for the 2021 financial year.

The Directors' remuneration report for 2021 is divided into three principal sections:

- › This annual statement, which summarises the Committee's activities and decisions taken during the year;
- › The annual report on remuneration, which provides details of the remuneration paid to the Board in the 2021 financial year (FY21) and to be paid in the 2022 financial year (FY22); and
- › A summary of the remuneration policy, which was approved by 97.81% of our shareholders and subsequently adopted at the 2020 Annual General Meeting.

As always, the Remuneration Committee reviews executive pay in the context of Company results and pay across the business. For executives, the Committee remains committed to pay for performance.

In the context of a year where significant progress was made on the operational and financial turnaround strategy, the Remuneration Committee carefully considered the experiences of our key stakeholders, as well as overall Group performance, when making decisions on executive remuneration. We have outlined below the key drivers of our decisions.

Group performance

The Group delivered against its key milestones for FY21 as demonstrated by:

- › The disposal of Kier Living for £110m which facilitated amongst other benefits a material reduction in the Group's net debt;
- › A successful and fully subscribed capital raise of £241m that has further strengthened the balance sheet; and
- › The Group's financial performance delivering an adjusted operating profit of £100.3m and a net cash position of £3m at the end of the financial year.

During the year the Group continued to deliver vital Infrastructure and Construction projects during the COVID-19 pandemic. We responded by investing quickly and extensively to ensure our people were able to work safely in line with site and office working procedures. The Group did not have any employees furloughed in FY21 and all our projects remained operational throughout the year.

Shareholder experience

Our share price is beginning to reflect the strong underlying performance of the business and with the aforementioned strategic achievements in FY21, having more than doubled since I reported last year. Whilst no dividend will be paid this year, the steps taken to strengthen the balance sheet will enable dividends to resume as set out in the medium-term objectives.

Employee experience

Our employees responded brilliantly during the pandemic and the Committee is full of admiration for the manner in which our people navigated the enduring challenges of COVID-19 and as we turnaround the business. All employees received a voucher at Christmas, as a gesture of thanks for the commitment shown over 2020.

To support our employees a new wellbeing strategy was launched to provide support for mental, physical and financial wellbeing. A new wellbeing hub has been established to ensure employees can easily access support they need. The Group also introduced 'Focus on Me'

The terms of reference for the Committee can be viewed on the Company's website at www.kier.co.uk/corporategovernance

time, which encourages employees to take regular time out to focus on their wellbeing. We have also launched a mental wellbeing programme in the Construction business, which will be rolled out to other businesses during FY22. The Group also launched a digital GP service which all employees can access at any time.

The Group also recognises the importance of paying responsibly and introduced the Real Living Wage to all of the Group's direct employees from 1 April 2021. The Group is now developing its plan to gain Real Living Wage Accreditation in FY22.

Additionally, the Group extended its flexible benefits offering for all employees and improved the life assurance cover for 2,500 of its employees.

FY21 outcomes

Annual bonus

The annual bonus targets were adjusted operating profit (40%), the Group's year-end cash/net debt position (40%), health and safety targets (10%) and personal objectives (10%). The personal objectives related to the strategic imperatives of the sale of Kier Living and the execution of the capital raise, together with employee engagement. The Committee has regularly reviewed performance against the targets during year.

When assessing performance against the adjusted operating profit target, the Committee took into consideration a number of factors, including those set out in the section above. The stretch adjusted operating profit target had been set at £100m which compared with actual performance of £100.3m. The Committee considered this a strong level of performance taking into account also the quality of earnings during the year and that the formulaic outcome was a fair reflection of performance. The Committee therefore agreed that it would be appropriate to award a payment of 100% of the maximum opportunity for this element of the bonus.

As the sale of Kier Living and the capital raise occurred after the original target was set, the Committee adjusted the Group's year-end cash/net debt target to ensure that the impact of these one off events was excluded and that the annual targets continued to require stretching underlying business performance. The actual performance of £3.0m, was ahead of the stretch target of £2.3m. The Committee therefore agreed that it would be appropriate to award a payment of 100% of the maximum opportunity for this element of the bonus.

The target reduction in the Group's accident incidence rate ('AIR') and all accident incidence rate ('AAIR') had not been achieved and therefore no payment for this element of the bonus would be made. The number of accidents reportable under the RIDDOR Regulations was 28 in FY21, compared to 30 in FY20, with lost time accidents reducing from 75 to 63. However, the Group's AIR and AAIR at 30 June 2021 of 105 and 332 increased by c.21% and c.9% respectively, as compared to the equivalent figures at 30 June 2020; impacted by performance in February and April. It was noted that after adjusting for volumes, year over year AIR and AAIR remained broadly flat.

The Committee also reviewed the extent to which the Executive Directors had satisfied their personal objectives (see page 103 for further information). The Executive Directors were awarded 100% of the maximum opportunity of this element of the bonus.

The total bonus payment for the Chief Executive was 90% of the maximum opportunity. Having carefully considered the exceptional performance of the Chief Financial Officer during the year, the Committee decided to exercise its discretion to adjust the formulaic outcome from 90% to 100% of maximum opportunity by way of

recognition of his outstanding performance during the year. The Committee is satisfied that these payments reflect the performance of the Group and the Executive Directors during the year and noted that the bonus outcome is consistent with that for the broader employee population that are eligible to receive a bonus. One-third of net bonus payment received by the Executive Directors will be shares with legal ownership deferred for three years.

Vesting of LTIP awards

All LTIP awards granted in October 2018 had previously been forfeited.

The first LTIP awards granted to Andrew Davies and Simon Kesterton are scheduled to vest in October 2022 subject to the performance targets being achieved.

Adjustment to in-flight LTIP performance targets

In line with the rules of the LTIP and the historic treatment of outstanding LTIP awards after a capital raising, the Committee has agreed to adjust the number of shares under award for LTIP grants made in 2019 and 2020 to reflect the increased number of shares in issue and dilution of award holders as a result of the capital raise.

In addition, the Committee has determined that in order to put participants in a no-loss, no-gain position in respect of the sale of Kier Living and the capital raise, the EPS target for the 2019 LTIP award would be adjusted to take account of changes to earnings, associated assumptions and net interest from the pre-grant earnings projections upon which the targets were set. The adjustment also takes account of the number of shares in issue. Further detail is provided on page 105.

The Committee reviewed in detail the Net Debt:EBITDA targets attaching to the 2019 and 2020 LTIP awards. The Committee concluded that due to the complexity of the underlying calculations and any adjustment being inherently reliant on projections and assumptions at this stage, a formulaic adjustment to the targets during the performance period would be inappropriate. Instead, the Committee intends to assess actual performance relative to the original performance targets set at the end of the performance period to ensure the outcome is fair and robust.

Looking forward – FY22

Remuneration across the Group

Our refreshed Remuneration Policy, which governs executive pay at Kier, was approved by 97.81% of our shareholders at the 2020 AGM and the Committee would like to thank shareholders for their support. We have also consulted with shareholders and proxy agencies in August 2021 to discuss our proposals for the coming year.

In determining the FY22 remuneration of the Executive Directors and senior management (being the members of the Executive Committee and the Company Secretary), the Committee reviewed the workforce's remuneration and took into account the approach to remuneration across the Group as a whole. In particular, the Committee reviewed:

- › Salary information relating to the workforce, noting that increases of up to 4% will be awarded across the Group with effect from 1 October 2021;
- › The other elements of remuneration payable to the workforce – for example, the bonus opportunities to be made available to certain levels of employee in FY22;
- › The Group's latest gender pay gap statistics, which related to the year ended 5 April 2020, noting that both the salary gap and

Directors' remuneration report
Annual Statement of the Chair of the Remuneration Committee (continued)

bonus gap had increased as compared to the previous year. Whilst the temporary COVID-19 pay reductions and the strategic re-structure undertaken in 2019/2020 had impacted the statistics, the Group recognised that diversity and inclusion is critical in driving the business forward;

- › Discretionary recognition payments being made to over 3,600 employees in the Group to recognise the contribution and sacrifices made over the last few years, especially during the pandemic; and
- › The Real Living Wage was introduced during FY21 to all direct Group employees.

Base salaries

In the two years since his appointment, the Chief Executive has demonstrated his commitment to Kier and achieved several key milestones that were critical in the Group's turnaround journey. During that time the Chief Executive has not received a base salary increase (having been appointed on a salary lower than his predecessor) or annual bonus pay-out. Additionally, both the Chief Executive and Chief Financial Officer voluntarily took a 25% cut to their pay and pension contributions for 3 months' during the early phases of the pandemic which has not been repaid and had the quantum of the LTIP award adjusted downwards in FY21 to reflect the fall in share price that was a consequence of legacy decisions by previous management.

Against this challenging backdrop, the Chief Executive has successfully led on creating a strong operational platform for sustainable profitable growth and generating free cash flow, whilst simplifying the Group and strengthening the balance sheet. The disposal of Kier Living for £110m which facilitated amongst other benefits a material reduction in the Group's net debt, and the successful and fully subscribed capital raise of £241m has strengthened the Group's balance sheet and given Kier the capacity to invest. The Committee also recognises trading resilience resulting in the adjusted operating profit margin and adjusted operating cash flow achieved for FY21.

The Committee reviewed the Chief Executive's base salary during the year, taking into account pay levels at a range of other companies both in the sector, specifically key suppliers to government on large and complex construction and infrastructure projects and those in the general market with similar annual revenues and assets, size of operations and/or with a Chief Executive tasked with a performance turnaround. The Committee observed that the Chief Executive's current base salary was significantly behind the level seen at some of our key competitors for talent, and those tasked with a business turnaround.

It is in this context, that the Committee believe it critical the Chief Executive is fairly rewarded and incentivised to continue to deliver on the Group's strategy for the benefit of all stakeholders. Therefore, after very high levels of engagement with our shareholders, the Committee has decided to award the CEO an increase in base salary of 26% to £750,000 (FY20: £595,000) with effect from 1 July 2021. In return, the Committee makes a firm commitment that there will not be any further increase in the Chief Executive's base salary for the remainder of this policy period and the Chief Executive has voluntarily agreed to increase the deferral of any FY22 net bonus earned into shares to 50% as a signal of his commitment to the long-term prospects of Kier. Whilst the Committee considered potentially staggering the salary increase over several years it believes that it is in best interests of the business and stakeholders to act decisively this

year to get the Chief Executive's salary up to a level that reflects the size of the job and is sufficient to retain and motivate him, rather than making incremental, less impactful increases.

The Committee decided that, in line with the increase in base salaries across the workforce, the base salary of the Chief Financial Officer will increase by 4% to £503,880 (FY20: £484,500) with effect from 1 October 2021.

Annual bonus

The maximum bonus opportunity for each of the Chief Executive and the Chief Financial Officer will remain 125% of base salary.

The 2022 bonus targets are expected to relate to adjusted operating profit, free cash flow, the Group's safety performance and personal objectives, with a maximum of 25% of the opportunity relating to the non-financial targets as permitted by approved policy. The actual targets, weightings, and performance against them will be disclosed in the 2022 Annual Report. As noted, the Chief Executive has voluntarily agreed to defer 50% of any FY22 net bonus he receives into Kier shares for three years, further aligning his personal remuneration with that of shareholders.

LTIP awards

In the 2022 financial year, the Chief Executive will receive an LTIP award of 200% of base salary and the Chief Financial Officer will also receive an LTIP award of 200% of base salary. The policy permits awards of up to 200% of salary to the extent that the rationale is explained.

The Committee considered that a 200% award for both the Chief Executive and for the Chief Financial Officer was justified to incentivise the ongoing turnaround of the Group and to continue to align with the interests of shareholders and taking into account the likelihood of existing LTIP awards vesting. Awards in FY23 and FY24 will revert to a maximum of 175% of base salary subject to commensurately stretching performance targets and continued positive improvement in the Kier share price.

Many of the shareholders I consulted with over the summer had strong and divergent views on appropriate performance targets for FY22 LTIP awards. The Committee wishes to ensure that these views are taken into account and so the FY22 performance targets remain subject to Committee approval at the time of publication of this annual report. However, it is the Committee's intention to announce the performance targets separately ahead of the 2021 AGM.

Pension contributions

The pension contributions payable by the Company to each of the Chief Executive and the Chief Financial Officer in FY22 will remain at 7.5% of their respective base salaries, which is aligned with Company pension contributions made available to the wider workforce.

DAME HEATHER RABBATTS

Chair of the Remuneration Committee

15 September 2021

Contents*

In this section:	page		page
Remuneration at a glance	101	Directors' remuneration for the 2021 financial year	102
Annual report on remuneration	102	Directors' remuneration policy – Summary	110

* Key sections only are listed

Background information

Approach to remuneration at Kier

Our remuneration policy aims to:

- › **align with strategy and incentivise and reward performance:** over two-thirds of the Executive Directors' maximum remuneration opportunity is variable and relates to the Group's performance against its strategic priorities;
- › **align Executive Directors' interests with those of shareholders:** approximately half of the Executive Directors' maximum remuneration opportunity is satisfied in shares and the Executive Directors' are encouraged to build up shareholdings in the Company of at least two years' base salary over a period of up to five years; and
- › **support the delivery of the Group's strategy and promote its long-term success:** to achieve this aim, the Group needs to attract and retain talented management. The Committee therefore considers practices in comparable businesses so as to ensure that remuneration at Kier remains competitive, enabling it to attract and retain talented individuals, but without paying more than is necessary.

Remuneration framework

There are three elements to the framework for the Executive Directors' remuneration:

- › **fixed element:** comprises base salary, taxable benefits (private health insurance and a company car or car allowance) and a pension;
- › **short-term element:** an annual bonus, which incentivises and rewards the delivery of a balanced selection of financial and non-financial targets in a financial year, with payments being satisfied in cash (2/3), which are subject to clawback, and shares (1/3), which are deferred for three years; and
- › **long-term element:** the LTIP incentivises financial performance over a three-year period, promoting long-term sustainable value creation for shareholders. Vested shares are subject to a two-year holding period.

Summary of the Executive Directors' remuneration in 2021 and 2022

The tables below:

- › summarise the Executive Directors' remuneration in 2021; and
- › summarise the principal elements of the Executive Directors' remuneration in 2022.

Executive Directors' remuneration – 2021

The following table summarises the key elements of the Executive Directors' remuneration in 2021:

Director	Role	Fixed remuneration ^{1,2}	Variable remuneration ^{1,3}	Total remuneration ¹
Andrew Davies	Chief Executive	£654,000	£669,000	£1,323,000
Simon Kesterton	Chief Financial Officer	£532,000	£606,000	£1,138,000

¹ All amounts expressed before deductions for income tax and national insurance contributions and rounded to the nearest £1,000.

² Comprises base salary, taxable benefits and pension contributions. See page 102 for further details.

³ Comprises annual bonus, LTIP and share schemes. See page 102 for further details.

Executive Directors' remuneration – 2022

The following table summarises the key elements of the Executive Directors' remuneration in 2022:

Element	Chief Executive	Chief Financial Officer
Base salary	£750,000 ¹	£503,880 ²
Pension	7.5% of salary	
Bonus	125% of salary	
Bonus targets³	Will relate to adjusted operating profit, free cash flow, the Group's safety performance and personal objectives, with a maximum of 25% of the opportunity relating to the non-financial targets	
Deferred shares⁴	One-third of any net bonus annual payment to be satisfied by an allocation of shares (legal ownership deferred for three years)	
LTIP	200% of salary	
LTIP performance conditions³	At the date of this Annual Report, the performance conditions relating to the LTIP awards to be granted in the 2022 financial year remain under consideration	
Holding period	Any vested LTIP shares must be held for two years after vesting (after payment of tax)	
Malus and clawback	Clawback will apply to any cash bonuses paid and to the post-vesting holding period for any LTIP shares Malus will apply to any deferred shares (in the three-year deferral period) and LTIP awards (prior to vesting)	

¹ With effect from 1 July 2021.

² With effect from 1 October 2021.

³ The actual bonus targets (and performance against them) and details of the LTIP awards will be disclosed in the 2022 Annual Report.

⁴ 50% of any net bonus annual payment to the Chief Executive for the 2022 financial year.

Annual report on remuneration

Introduction

This section of the report sets out the annual report on remuneration for the 2021 financial year.

The following information contained in this section of the report has been audited: the table containing the total single figure of remuneration for Directors and accompanying notes on this page, the pension entitlements referred to on page 103, the incentive awards made during the 2021 financial year referred to on page 104, the payments for loss of office referred to on page 104, the payments to past Directors referred to on page 104 and the statement of Directors' shareholdings and share interests set out on page 105.

Directors' remuneration for the 2021 financial year

The following table provides details of the Directors' remuneration for the 2021 financial year, together with their remuneration for the 2020 financial year, in each case before deductions for income tax and national insurance contributions (where relevant):

	Fixed pay								Variable pay								Total	
	Salary/fee (£000)		Taxable benefits ¹ (£000)		Pension (£000) ²		Total – fixed pay (£000)		Bonus (£000)		LTIP vesting (£000)		Share schemes (£000)		Total – variable pay (£000)		Total (£000)	
	2021	2020 ³	2021	2020	2021	2020 ³	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Executive Directors																		
Andrew Davies	595	558	14	13	45	42	654	613	669	–	–	–	–	–	669	–	1,323	613
Simon Kesterton	482	375	14	11	36	27	532	413	606	–	–	–	–	–	606	–	1,138	413
Non-executive Directors																		
Alison Atkinson ⁴	34	–	–	–	–	–	34	–	–	–	–	–	–	–	–	–	34	–
Justin Atkinson	62	58	–	–	–	–	62	58	–	–	–	–	–	–	–	–	62	58
Kirsty Bashforth ⁵	29	58	–	–	–	–	29	58	–	–	–	–	–	–	–	–	29	58
Matthew Lester	235	106	–	–	–	–	235	106	–	–	–	–	–	–	–	–	235	106
Heather Rabbatts	62	13	–	–	–	–	62	13	–	–	–	–	–	–	–	–	62	13
Clive Watson	62	13	–	–	–	–	62	13	–	–	–	–	–	–	–	–	62	13
Total	1,561	1,181	28	24	81	69	1,670	1,274	1,275	–	–	–	–	–	1,275	–	2,945	1,274

¹ Comprises private health insurance and a company car or a car allowance.

² Comprises the payment of employer pension contributions and/or a cash allowance.

³ Includes the temporary reductions in base salaries, fees and employer pension contributions and/or a cash allowance which were taken in response to COVID-19.

⁴ Alison Atkinson joined the Board on 15 December 2020.

⁵ Kirsty Bashforth left the Board on 15 December 2020.

All figures in the above table have been rounded to the nearest £1,000.

Notes to the single figure table

Pension entitlements

The Executive Directors are eligible to participate in the Kier Retirement Savings Plan, a defined contribution plan. The contributions payable to the Executive Directors are subject to the annual allowance, with the balance being payable as a cash allowance. Cash allowances are subject to tax and national insurance deductions and are excluded when determining annual bonus and long-term incentive arrangements.

The pension contributions paid on behalf of, and the cash allowances paid to, the Executive Directors in respect of the 2021 financial year were:

Director	Employer pension contribution	Pension contribution	Cash allowance	Total
Andrew Davies	7.5%	–	£44,625	£44,625
Simon Kesterton	7.5%	–	£36,159	£36,159

Annual bonus – 2021 financial year

The bonus payments to the Executive Directors in respect of the 2021 financial year, in each case before deductions for income tax and national insurance, were:

Financial performance (aggregate weighting: 80%)

Target	Opportunity	Threshold target	On target	Stretch target	Actual performance	Actual performance as a % of opportunity
Group adjusted operating profit ¹	40%	£77m	£95.6m	£100m	£100.3m	100%
Group year-end cash/net debt ¹	40%	£(30.7)m	£(15.7)m	£2.3m	£3.0m	100%

¹ As the sale of Kier Living and the 2021 capital raise occurred after the original annual bonus targets were set, the Committee adjusted the targets to ensure the impact of these one off events was excluded and the annual targets continued to require stretching underlying business performance.

Non-financial performance (aggregate weighting: 20%)

Health and safety (maximum opportunity: 10%)

Target	Opportunity	Range	Actual performance	Actual performance as a % of opportunity
Reduction in the Group's average AIR ¹	5%	10% reduction	+21%	Nil
Reduction in the Group's average AAIR ²	5%	10% reduction	+9%	Nil

¹ The target related to a reduction in the Group's AIR calculated on the average 12-month performance for the 2021 financial year.

² The target related to a reduction in the Group's AAIR calculated on the average 12-month performance for the 2021 financial year.

Personal objectives (maximum opportunity 10%)

A maximum of 10% of the total bonus opportunity related to the satisfaction of personal objectives. The Committee assessed performance against those objectives as follows:

Summary of key performance indicators		Progress	% Payment
Andrew Davies Simon Kesterton	Completion of the strategic imperative of the sale of Kier Living for a net value in excess of £75m	Sale completed May 2021 with net proceeds of c.£100m Firm Placing, Placing and Open Offer fully subscribed and completed June 2021	100%
	Successful execution of an equity raise	Through quarterly 'pulse' surveys that focus on measuring our culture of supporting our colleagues, offering career opportunity, navigating the pandemic, and monitoring progress in our commitment in creating an inspiring workplace, where everyone is empowered to achieve their goals. The employee engagement index for the quarterly pulse surveys were: July 2020 – 63%, November 2020 – 57%, March 2021 – 67% and May 2021 – 55%. Average employee engagement index of 62%	
	Deliver an employee engagement index of no less than 50%		

Total outcome

Director	Bonus payable as % of opportunity	Opportunity as % of salary	Bonus payable as % of salary	Total bonus
Andrew Davies	90%	125%	112.5%	£669,375
Simon Kesterton	100%	125%	125%	£605,625

The Committee exercised its discretion to adjust the payment made to Simon Kesterton from 90% to 100% of maximum outcome in recognition of his outstanding performance during the 2021 financial year.

One-third of the total net bonus payment to the Executive Directors will be satisfied by an allocation of shares with legal ownership deferred for three years.

LTIP awards – performance period ended 30 June 2021

All awards granted under the 2018 financial year previously lapsed.

The first LTIP awards granted to Andrew Davies and Simon Kesterton are scheduled to vest in October 2022.

Directors' remuneration report

Annual report on remuneration (continued)

Incentive awards made during the 2021 financial year

The following incentive awards were made to those persons who, during the 2021 financial year, served as a Director:

Award ¹	Basis of award	Director	Face value ^{2,3}	Potential award for threshold performance	Performance period	Vesting date	Difference between exercise price and face value	Performance measures
LTIP	Percentage of base salary for the year ended 30 June 2021	Andrew Davies	£904,221	25% of face value	1 July 2020 – 30 June 2023	18 December 2023	n/a	Awards are based 50% on AOP for financial year ending 30 June 2023, 25% on TSR performance against a comparator group and 25% on Net Debt:EBITDA. See table below for further detail
		Simon Kesterton	£736,294					

¹ The awards made to Andrew Davies and Simon Kesterton were reduced to 130% of base salary and were at nil cost.

² For the LTIP awards, 'face value' is calculated using the market price of a share in the capital of the Company on 17 December 2020 of 78.3p.

³ Calculated on the adjusted number of shares held under the LTIP award following the 2021 capital raise.

No persons who, during the 2021 financial year, served as a Director received awards of deferred shares or SIP.

The performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2021 financial year are set out in the table below. The awards will, subject to the satisfaction of the performance conditions, vest on the third anniversary of the grant date (18 December 2023).

Performance condition	Weighting	Original targets
Adjusted operating profit¹	50%	0% vesting for below £120.7m 25% vesting for £120.7m 100% vesting for £144.8m Straight-line vesting between these points
TSR outperformance²	25%	0% vesting for performance below median constituent of comparator group 25% vesting for performance in line with median constituent of comparator group 100% vesting for performance equal to upper quartile of comparator group Straight-line vesting between these points
Net Debt:EBITDA performance³	25%	0% vesting for above 2.86:1 25% vesting for 2.86:1 100% vesting for 1.84:1 Straight-line vesting between these points

¹ For the financial year ending 30 June 2023.

² The peer group comprises FTSE 250 Index excluding investment trusts.

³ Target measured by reference to the average (mean) of (i) the Group's net debt/cash position as at 31 December 2020, 30 June 2021, 31 December 2021, 30 June 2022, 31 December 2022 and 30 June 2023 and (ii) the Group's EBITDA for each of the 2021, 2022 and 2023 financial years.

Payments for loss of office

No payments were made for loss of office during the 2021 financial year.

Payments to past Directors

Details of payments made to Claudio Veritiero during the 2020 financial year following the termination of his employment are set out on page 116 of the 2020 Annual Report.

During the period from 1 July 2020 to 19 November 2020, Mr. Veritiero received a payment in lieu of notice (PILON) of £186,499.06, paid in instalments, comprising aggregate base salary payments of £154,622.62, aggregate pension allowance payments of £27,393.89 and aggregate car allowance payments of £4,482.55.

All payments referred to above were subject to deductions for tax and national insurance contributions.

Directors' shareholdings and share interests

The Committee encourages the Executive Directors to build up a shareholding in the Company of at least two years' base salary, to be accumulated over a period of up to five years. Executive Directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and upon the vesting of LTIP awards until this shareholding has been reached. The Executive Directors are required to retain shares equal in value to 100% of base salary for a period of two years from the date on which employment is terminated (or if the number of shares owned at such date is less than such value, the shares then owned).

The following table sets out details, as at 30 June 2021 (or the date on which the relevant individual left the Board, as the case may be), of the shareholdings and share interests of those persons (together with, where relevant, the shareholdings and share interests of their connected persons) who, during the 2021 financial year, served as a Director:

Director	Shares held				Options held		Shareholding guideline (% of salary)	Current shareholding (% of salary) ⁷	Guideline met?
	Owning outright or vested ^{1,2}	Vested but subject to a holding period ³	Unvested and subject to performance conditions ⁴	Unvested and subject to continued employment ⁵	Vested but not exercised	Unvested and subject to continued employment ⁶			
Alison Atkinson	–	–	–	–	–	–	n/a	n/a	n/a
Justin Atkinson	46,096	–	–	–	–	–	n/a	n/a	n/a
Andrew Davies	159,275	–	2,356,118	–	–	–	200	35.1%	No
Simon Kesterton	159,024	–	1,779,495	–	–	–	200	43.0%	No
Matthew Lester	117,531	–	–	–	–	–	n/a	n/a	n/a
Heather Rabbatts	–	–	–	–	–	–	n/a	n/a	n/a
Clive Watson	41,176	–	–	–	–	–	n/a	n/a	n/a
Kirsty Bashforth ⁸	3,351	–	–	–	–	–	n/a	n/a	n/a

¹ Comprising shares held legally or beneficially by the relevant Director or their connected persons.

² Includes shares purchased under the 2021 capital raise.

³ Comprising deferred shares allocated to the relevant Director in connection with annual bonuses. See 'Deferred shares' below.

⁴ Comprising unvested LTIP awards.

⁵ Comprising matching shares purchased after 30 June 2018 (or the date that was three years prior to the date of leaving the Board, as the case may be) under the SIP. See 'Share Incentive Plan' on page 106.

⁶ Comprising options under the SAYE schemes. See 'Save As You Earn schemes' on page 106.

⁷ Calculated by reference to (i) shares owned outright or vested by the Director or his/her connected persons and (ii) deferred shares allocated in connection with annual bonuses, using the closing market price of a share in the capital of the Company on 30 June 2021 of £11.31 and (iii) the gross base salaries for the year ended 30 June 2021.

⁸ All figures are at the date of leaving the Board.

There have been no changes in the interests of the Directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2021.

Deferred shares

No persons who, during the 2021 financial year, served as a Director beneficially owned, at 30 June 2021, shares in the capital of the Company as a result of awards of deferred shares.

LTIP awards

Those persons who, during the year ended 30 June 2021, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2021:

Director	2019 award	2020 award ^{1,3}	2021 award ¹	Cumulative total 30 June 2020	Cumulative total 30 June 2021
Andrew Davies	–	1,201,302	1,154,816	1,201,302	2,356,118
Simon Kesterton	–	839,145	940,350	839,145	1,779,495
Date of award	n/a	28 October 2019	18 December 2020	–	–
Share price used for award ²	n/a	115.8 pence	78.3 pence	–	–
End of performance period	n/a	30 June 2022	30 June 2023	–	–

¹ Adjusted to take account of the 2021 capital raise.

² The market price of a share from the business day immediately prior to the date of the award.

³ Following completion of the sale of Kier Living and the 2021 capital raise, the EPS Performance condition was adjusted to take account of changes to earnings, associated assumptions, net interest and number of shares in issue to ensure the target was no more difficult or easier to satisfy. Target adjusted to: adjusted earnings and adjusted EPS of the continuing consolidated Group for the financial year ending 30 June 2022 with 0% vesting for below 9.8p, 25% of vesting for 9.8p, and 100% vesting for 14.8p with straight-line vesting between these points.

The performance conditions for the 2021 award are set out on page 104.

Share Incentive Plan

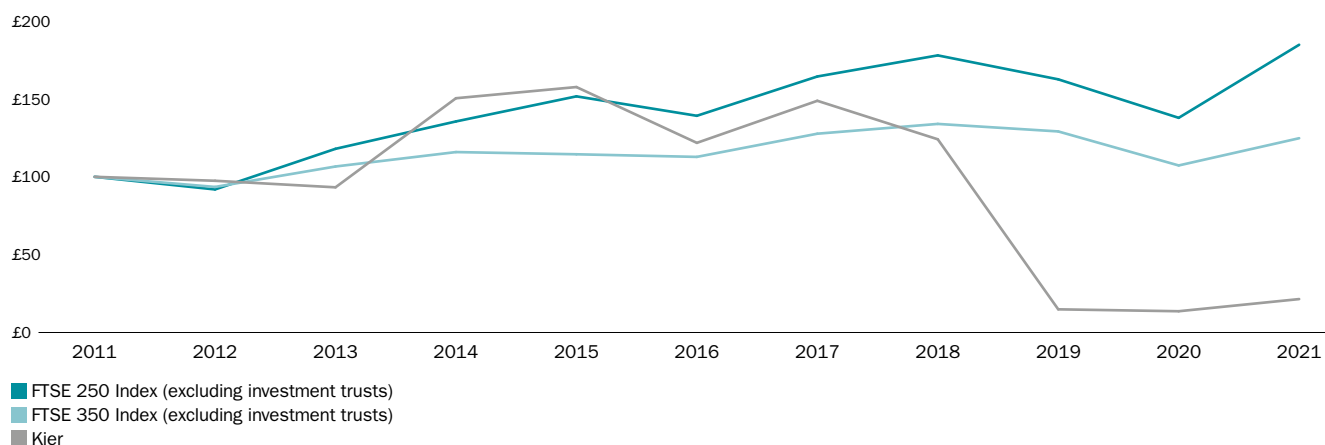
No persons who, during the 2021 financial year, served as a Director had options under the SIP at 30 June 2021.

Save As You Earn scheme

No persons who, during the 2021 financial year, served as a Director had options under the Kier Group plc 2016 Sharesave Scheme at 30 June 2021.

Total shareholder return

The graph below shows the value, at 30 June 2021, of £100 invested in shares in the capital of the Company on 30 June 2011, compared with the value of £100 invested in (i) the FTSE 250 (excluding Investment trusts) selected as the comparator group for the 2021 LTIP award (see page 104) and (ii) the FTSE 350 (excluding investment trusts). The LTIP comparator group was chosen because it includes companies of a similar size and complexity to the Group and the FTSE 350 was chosen to illustrate the Group's performance against a broad equity market index of the UK's leading companies. The other points plotted are the values at 30 June during the 10-year period.



Chief Executive's remuneration

The table below sets out the total remuneration of the Chief Executive paid with respect to each financial year indicated:

Chief Executive	Year	Chief Executive single figure of remuneration (£000) ¹	Annual bonus payout against maximum opportunity (%)	LTIP vesting against maximum opportunity (%)
Paul Sheffield	2012	£1,273	75%	100%
	2013	£987	49%	31%
	2014	£1,099	68%	33%
Haydn Mursell	2015	£1,079	92%	–
	2016	£1,311	90%	34%
	2017	£1,199	48%	29%
	2018	£1,459	75%	24%
	2019 ²	£423	–	–
Andrew Davies	2019 ²	£140	–	–
	2020 ³	£613	–	–
	2021	£1,323	90%	–

¹ All figures are rounded to the nearest £1,000.

² Haydn Mursell stood down as Chief Executive on 22 January 2019 and Andrew Davies was appointed with effect from 15 April 2019.

³ Includes the temporary reduction in base salary and employer pension contributions and/or a cash allowance in response to COVID-19.

Percentage change in Directors' remuneration

The table below shows the percentage changes in base salary or fees, taxable benefits and annual bonus of each Director in the financial year indicated, as compared to the previous financial year, together with the approximate comparative average figures for those employees who were eligible for salary reviews on 1 October of each year and who were not subject to collective agreements. In respect of the 2021 financial year, this section of the employee population (comprising approximately 6,000 individuals across a number of levels) is considered to be the most appropriate group for comparison purposes, as its remuneration is controlled by the Group and is subject to similar external market forces as those that relate to the Executive Directors' remuneration. Approximately 750 employees are eligible to receive a bonus.

	Base salary/fee ^{1,2,3}		Taxable benefits ¹		Annual bonus ⁴	
	2021	2020	2021	2020	2021	2020
Executive Directors						
Andrew Davies	6.7%	-6.2%	7.7%	8.3%	n/a	-%
Simon Kesterton	8.2%	-6.3%	7.7%	8.3%	n/a	-%
Chairman						
Matthew Lester	4.9%	-4.6%	n/a	n/a	n/a	n/a
Non-executive Directors						
Alison Atkinson	-%	-%	n/a	n/a	n/a	n/a
Justin Atkinson	6.9%	-6.5%	n/a	n/a	n/a	n/a
Kirsty Bashforth	-%	-6.5%	n/a	n/a	n/a	n/a
Heather Rabbatts	6.9%	-6.5%	n/a	n/a	n/a	n/a
Clive Watson	6.9%	-6.5%	n/a	n/a	n/a	n/a
Other employees	4.73%	2.35%	-0.57%	11.35%	n/a	-%

¹ Base salary/fee and taxable benefits as shown in the table on page 102 and the 2020 Annual Report.

² Calculated on an annualised basis where base salary/fee or taxable benefits paid for part of financial year.

³ Calculations include the temporary reductions in base salary/fee which were taken in response to COVID-19.

⁴ No bonus was paid in the 2020 financial year so comparison is not possible.

Pay ratio of Chief Executive to average employee

The table below shows the ratio of the Chief Executive's total remuneration for the year ended 30 June 2021, using the information set out in the single total figure table on page 102, to the total remuneration of a lower quartile, median and upper quartile employee.

	25 th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75 th percentile (Chief Executive: UK employees)
2021	50:1	36:1	22:1
2020	24:1	20:1	10:1

Further details of the remuneration of the Chief Executive in the 2021 financial year and those individuals whose remuneration in the 2021 financial year was at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

	Chief Executive	25 th percentile	Median	75 th percentile
Salary	£595,000	£25,704	£35,018	£52,780
Total remuneration	£1,323,060	£26,553	£36,418	£60,191

The median, lower and upper quartile figures used to determine the above ratios were calculated by reference to the full-time equivalent, annualised remuneration of the Group's UK-based employees (comprising salary, benefits, pension, annual bonus and share based and other incentives), based on the Group's gender pay gap data at April 2021, to determine 'best equivalents' in accordance with Option B in the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended). The Committee selected this calculation methodology as it was considered to produce the most accurate and representative result.

The Committee noted the increase in the median total pay CEO pay ratio was due to the annual bonus payment for the Chief Executive for the 2021 financial year. It considers that the median pay ratio for 2021 disclosed in the above table is consistent with the pay, reward and the progression opportunities available to UK-based employees across the business.

Directors' remuneration report

Annual report on remuneration (continued)

Relative importance of spend on pay

The graph below shows the percentage changes in the total employee remuneration and dividends paid between the 2020 and 2021 financial years:

Total employee remuneration (£m)		Dividend (£m)	
2020	707.1	2020	0
2021	601.1	2021	0

Employee remuneration is remuneration paid to or receivable by all employees of the Group (as stated in note 8 to the 2021 consolidated financial statements on page 155).

The dividend figures in the chart comprise any dividends paid in the 2020 and 2021 financial years (as stated in note 11 to the 2021 consolidated financial statements on page 165).

Implementation of the remuneration policy in 2022

Executive Directors' base salary

The base salaries of the Executive Directors for the 2022 financial year are as follows:

Director	From 1 October 2020	From 1 October 2021	Percentage increase
Andrew Davies	£595,000	£750,000 ¹	26%
Simon Kesterton	£484,500	£503,880	4%

¹ With effect from 1 July 2021.

Annual bonus

In the 2022 financial year, the maximum annual bonus opportunity for each of the Chief Executive and the Chief Financial Officer will be 125% of base salary.

The bonus targets will relate to profit, free cash flow, the Group's safety performance and personal objectives. The actual bonus targets and performance against them will be disclosed in the 2022 Annual Report. 50% and 33% of net bonus payment for the Chief Executive and Chief Financial Officer respectively will be satisfied by an allocation of shares, deferred for three years. Clawback provisions will apply for a three-year period following any bonus payment.

LTIP awards

In the 2022 financial year, the Chief Executive and the Chief Financial Officer will be granted an LTIP award of 200% of base salary.

At the date of this Annual Report, the performance conditions for these awards remain under consideration. They will apply over the three-year period ending 30 June 2024. The actual performance conditions will be disclosed in the 2022 Annual Report. A two-year holding period will apply to any vested awards.

Pension and taxable benefits

The pension contributions or cash allowances payable on behalf of or to the Executive Directors in the 2022 financial year are:

Executive Director	Percentage of salary
Andrew Davies	7.5%
Simon Kesterton	7.5%

The Executive Directors will also continue to receive private health insurance and either a company car or a car allowance, which will be £13,900 per annum (2021: £13,900).

Non-executive Directors' fees

Following a review, there will be an increase in the fees payable to the Non-executive Directors, other than the Chairman, for the 2022 financial year. The fees were previously increased in 2017. The base fee will increase from £51,500 to £57,000 (10.7% increase) and the Chair of Board committee/Senior Independent Director fee will increase from £10,000 to £12,000 (20% increase). The total fees payable to the Non-executive Directors with effect from 1 October 2021 are as follows:

Director	Base fee	Chair of Board committee fee	Senior Independent Director fee	Total fee
Alison Atkinson	£57,000	£12,000	–	£69,000
Justin Atkinson	£57,000	–	£12,000	£69,000
Matthew Lester ¹	£235,000	–	–	£235,000
Heather Rabbatts	£57,000	£12,000	–	£69,000
Clive Watson	£57,000	£12,000	–	£69,000

¹ Matthew Lester does not receive a fee for his work as the Chair of the Nomination Committee.

The Remuneration Committee

Membership and meeting attendance

The names of the members of the Committee are set out on page 98, together with an indication of the Committee's principal activities during the 2021 financial year. The Chief Executive (Andrew Davies) and the Group HR Director (Helen Redfern) are invited to attend Committee meetings. No individuals are involved in decisions relating to their own remuneration. Details of the Committee's meetings during the year are set out on page 81. The secretary of the Committee is the Company Secretary. The Committee's terms of reference can be viewed on the Company's website at www.kier.co.uk/corporategovernance.

Principal activities – 2021 financial year

The Annual Statement of the Chair of the Remuneration Committee on pages 98 to 100 provides a summary of the Committee's principal activities during the year.

When taking its decisions during the year, the Committee took into account the following factors:

- Clarity and simplicity: the Group's remuneration arrangements are clearly communicated to shareholders and the workforce, for example, through this Directors' remuneration report and the engagement process with shareholders;
- Risk: the Committee notes the reputational and other risks that may result from excessive rewards. The Committee has the discretion to adjust annual bonus payments and vesting levels of LTIPs to address this issue;
- Predictability and proportionality: the Committee has discretion in relation to variable remuneration to ensure that rewards reflect the long-term performance of the Group; and
- Alignment to culture: when setting remuneration, the Committee has sought to encourage behaviours from management which it would expect to see throughout the Group and which are consistent with the Group's purposes, values and strategy.

Committee performance

2020 evaluation

Please see the Annual Statement of the Chair of the Remuneration Committee on pages 98 to 100 for information on setting executive remuneration to align management's interests with those of shareholders in view of the circumstances in which the Group was operating in.

2021 evaluation

The external review was undertaken by Clare Chalmers. She found that the Committee operated effectively in a challenging environment. She observed that there was good identification of the issues and the Committee balanced the views of all stakeholders before coming to its conclusions. One recommendation was that to ensure sufficient time is scheduled into the agenda pre and post meeting for planning and actions.

Area of focus for the Committee in 2022

The Board has agreed that the Committee's principal area of focus in the 2022 financial year would be ensuring executive remuneration align management's interests with those of shareholders given the significant progress made in addressing the fundamental challenges the Group has faced. Please see the Annual Statement of the Chair of the Remuneration Committee on pages 98 to 100 for steps taken, or to be taken, by the Committee in this respect.

Advisers

During the 2021 financial year, the Committee undertook a review of its advisers and following a selection process appointed Willis Towers Watson ('WTW') as its independent advisers. During the year fees paid to WTW for advice to the Committee were £26,700 (excluding VAT). During the year, WTW also provided rewards and benefits advice to management. WTW is a signatory of and adheres to the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group. There are no connections between WTW and either the Company or any of the Directors. The Committee was satisfied that the advice it received from WTW is objective and independent. The Committee also received support from the Group HR Director (Helen Redfern) and the Company Secretary.

Shareholder voting

The Directors' remuneration report and the Remuneration Policy were subject to shareholder votes at the 2020 AGM. The results of the vote on the resolutions were:

Directors' remuneration report

Votes for ¹	Percentage votes for	Votes against ²	Percentage votes against	Votes withheld
54,915,311	98.02%	1,111,637	1.98%	42,931

¹ Includes those votes for which discretion was given to the Chairman.

² Does not include votes withheld.

Remuneration Policy

Votes for ¹	Percentage votes for	Votes against ²	Percentage votes against	Votes withheld
54,809,976	97.81%	1,225,075	2.19%	34,828

¹ Includes those votes for which discretion was given to the Chairman.

² Does not include votes withheld.

Compliance statement

This Directors' remuneration report complies with the Companies Act 2006, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended) and the Listing Rules of the Financial Conduct Authority and applies the main principles relating to remuneration which are set out in the UK Corporate Governance Code (July 2018 edition).

Directors' remuneration report

Directors' remuneration policy summary

Introduction

The Company's remuneration policy, which was approved at the AGM on 17 December 2020, will continue to apply in the 2022 financial year. The Committee has included the policy table and certain other extracts from the policy in this year's report for ease of reference and so as to provide context for the decisions taken by the Committee during the 2021 financial year. The full policy is set out on pages 105 to 112 (inclusive) of the 2020 Annual Report, which can be found on Kier's website at www.kier.co.uk/investors.

Remuneration policy table

The Group's policy for each element of an Executive Director's remuneration is set out in the table below:

Element and link to strategy	Operation	Opportunity	Performance measures
Base salary To attract and retain Executive Directors of the calibre required to deliver the Group's strategy	Salaries are reviewed annually by reference to a number of factors, including an individual's experience, performance and role within the Group, the external market (including FTSE companies of a similar size and sector peers) and any increase awarded to the wider employee population.	Any increase will typically be in line with those awarded to the wider employee population. The Committee has discretion to award higher increases in circumstances that it considers appropriate, such as a material change in the complexity of the business or an individual's responsibility. Details of salary changes will be disclosed in the Annual Report.	Continued strong performance.
Benefits To provide benefits which are competitive with the market	Benefits are reviewed from time to time and typically include, but are not limited to, a company car or car allowance, private health insurance and life assurance. Business-related expenses which are deemed to be taxable form part of the benefits provided. In certain circumstances, the Committee may also approve the provision of additional benefits or allowances – for example, the relocation of an Executive Director to perform his or her role.	Benefits are set at a level which the Committee considers appropriate in light of the market and an individual's circumstances.	None.
SAYE schemes To encourage ownership of the Company's shares	One or more HMRC-approved schemes allowing all employees, including Executive Directors, to save up to the maximum limit specified by HMRC rules. Options are granted at up to a 20% discount.	The maximum amount that may be saved is the limit prescribed by HMRC (or such other lower limit as determined by the Committee) at the time employees are invited to participate in a scheme. Typically, employees are invited to participate on an annual basis.	None.
Share Incentive Plan To encourage ownership of the Company's shares	An HMRC-approved scheme which is open to all UK tax resident employees of participating Group companies. Executive Directors are eligible to participate. The plan allows employees to purchase shares out of pre-tax income. The Company may match shares purchased with an award of free shares. Matching shares may be forfeited if employees leave within three years of their award, in accordance with the SIP rules. The plan trustees can reinvest cash dividends to acquire further shares on behalf of participants.	Participants can purchase shares up to the prevailing limit approved by HMRC (or such other lower limit as determined by the Company) at the time they are invited to participate. The Company currently offers to match purchases made through the plan at the rate of one free share for every two shares purchased, but may increase this to the prevailing limit approved by HMRC.	None.

Remuneration policy table (continued)

Element and link to strategy	Operation	Opportunity	Performance measures
Pension To provide a retirement benefit which is competitive with the market	Executive Directors participate in a defined contribution scheme.	The maximum employer contributions for the Executive Director will be aligned with those made available to the workforce, being, at the date of this policy, 7.5% of pensionable salary. Executive Directors may elect to receive all or part of the employer contribution as a taxable cash supplement.	None.
Annual bonus To reward the delivery of near-term performance targets and business strategy	The Company operates a discretionary bonus scheme. Whether a bonus is awarded and the amount (if any) of bonus awarded will be determined at the Committee's discretion. Payments under the bonus scheme are based on an assessment of performance against targets over the year. One-third of any net payment is satisfied by an allocation of Kier Group plc shares, which is deferred for three years (subject to early release for 'good leavers' and upon a takeover) and is subject to a malus provision. Dividend payments accrue on deferred bonus shares over the deferral period. Malus and, in the case of the cash element of a bonus, clawback will apply. See 'Malus and clawback' on page 113.	The maximum potential bonus for the Executive Directors in respect of the financial year ending 30 June 2021 is 125% of base salary. 'Threshold' performance, for which an element of bonus may become payable under each component of the annual bonus, is set by the Committee each financial year. The level of bonus for achieving threshold performance varies by performance target, and may vary for a target from year to year, to ensure that it is aligned with the Committee's assessment of the degree of difficulty (or 'stretch') in achieving it.	The Committee determines the bonus targets and their relative weightings each year. The weighting towards non-financial targets will be no higher than 25% of the maximum potential bonus. The bonus targets for the 2021 financial year will relate to profit, net debt, the Group's safety performance and personal objectives. Actual bonus targets (and performance against each of these targets), and any use by the Committee of its discretion with respect to bonus payments, will be disclosed in the Annual Report immediately following the end of the relevant performance period.

Directors' remuneration report
Directors' remuneration policy summary (continued)

Remuneration policy table (continued)

Element and link to strategy	Operation	Opportunity	Performance measures
LTIP awards To reward the sustained strong performance by the Group over the longer-term	Awards are granted annually and will typically vest, subject to the achievement of performance conditions, on the third anniversary of the date of grant. A two-year post-vesting holding period applies. A malus provision applies to awards pre-vesting and a clawback provision applies to the post-vesting holding period. See 'Malus and clawback' on page 113. Dividend equivalents may apply to awards. The awards are subject to the LTIP rules and the Committee may adjust or amend the awards only in accordance with the LTIP rules. The LTIP rules permit the Committee to exercise its discretion to modify any performance condition(s) when it deems it fair and reasonable to do so. Any use of Committee discretion with respect to modifying any performance condition(s) will be disclosed in the relevant Annual Report. The Committee may adjust the number of shares which will vest if, in its discretion, it determines that it would be appropriate to do so in order to override the formulaic outcome of any performance condition, taking into account such factors as it considers relevant, including but not limited to: (i) the performance of the Company or of any member of the Group; (ii) the conduct or performance of a participant; and/or (iii) any circumstances or events which have occurred since the award was granted.	The maximum award is 200% of base salary. The Committee may grant awards of up to the maximum permitted when it considers it appropriate to do so. The reasons for an award in excess of 150% of salary will be disclosed in the relevant Annual Report. On achieving the threshold performance level for each element of the award, 25% of the relevant element of the award will vest. Vesting is on a straight-line basis between threshold and maximum levels of performance.	Prior to granting an award, the Committee sets performance conditions which it considers to be appropriately stretching. In line with the awards granted in recent years, the performance conditions for the LTIP awards to be granted in the 2021 financial year are expected to relate to EPS growth and/or TSR outperformance and/or the Group's Net Debt:EBITDA performance over the performance period. The performance conditions relating to an award, and their respective weightings, will be disclosed in the Annual Report immediately following its grant.

Payments from outstanding awards

The Company will honour any commitment entered into, and the Executive Directors will be eligible to receive payment from any award or arrangement made, either (i) before this policy came into effect or (ii) at a time when the relevant individual was not a Director and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director. For these purposes, 'payment' includes the satisfaction or vesting of awards of variable remuneration (including LTIP awards) and, in relation to awards of shares, upon the terms which were agreed when the award was granted. Any such award or arrangement will be subject to their existing terms, provided that such terms were permitted by the remuneration policy in force at the date on which the relevant award or arrangement was made, granted or entered into (as the case may be).

Notes to the policy table

Malus and clawback

Allocations of shares in part satisfaction of annual bonus payments and unvested LTIP awards are subject to a 'malus' provision during the deferral period and the period prior to vesting, respectively.

This allows the Committee to determine, in its absolute discretion, that (i) the level of an unvested LTIP award (or part of an award) is reduced (including to nil) and/or (ii) the number of deferred shares is reduced (including to nil) in certain circumstances. Examples of such circumstances include, but are not limited to:

- › A material misstatement of the Group's financial statements;
- › A material error in determining the level of satisfaction of a performance condition or target;
- › A participant deliberately misleading the Company, the market and/or shareholders in relation to the financial performance of the Group;
- › Any action or omission on the part of the participant which resulted in or which could reasonably be expected to have resulted in material reputational damage to the Group;
- › A participant's employment being terminated in circumstances of gross misconduct and/or circumstances justifying summary dismissal; and
- › Any other circumstances similar in nature to those set out above which the Company considers justifies the application of malus.

The Committee has the right to apply the malus provision to an individual or on a collective basis.

Clawback applies to (i) the cash element of the annual bonus and (ii) the two-year post-vesting holding period which applies to LTIP awards. The circumstances in which clawback apply are the same (or substantially the same) as for malus. The ways in which clawback may be effected are set out in the Company's bonus rules and the LTIP rules, as the case may be. They include requiring an individual to pay or repay cash to the Company, reducing the level of awards made to an individual and delaying the vesting of LTIP awards.

Executive Director shareholding guidelines

The Committee encourages Executive Directors to accumulate a shareholding in the Company of at least 200% of base salary over a period of up to five years. Executive Directors are therefore required to retain any shares allocated to them as part of the annual bonus plan and upon the vesting of LTIP awards until they reach this level of shareholding.

A post-employment shareholding requirement also applies, pursuant to which, for a period of two years after the date on which employment terminates, an Executive Director is required to retain shares in the Company allocated as part of the annual bonus plan and upon the vesting of LTIP awards which are equal in value to 200% of base salary (or, if the number of such shares owned at such date is less than such value, such shares then owned).

Selection of performance measures and approach to setting targets

The annual bonus targets are determined annually to reflect matters which the Committee considers to be areas of specific focus for the Executive Directors over the shorter-term. The Committee believes that using a number of targets provides a balanced incentive. The targets themselves are aligned to, and are designed to support the delivery of, the Group's strategic objectives.

The Committee sets performance conditions relating to the LTIP awards which are designed to align the interests of management and shareholders, incentivise management to deliver the Group's strategic objectives and reward performance over the longer-term.

Targets for the annual bonus and performance conditions for the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points. The Committee intends that targets and measures will be stretching but achievable and will align management's interests with those of shareholders.

Approach to setting the remuneration of other employees

Kier's approach to setting annual remuneration is broadly consistent across the Group. Consideration is given to the experience, performance and responsibilities of individuals as well as to publicly available external benchmarking data, to the extent considered necessary or appropriate. Certain grades of senior employees are eligible to participate in an annual bonus scheme with similar performance targets to those used for the Executive Directors. Maximum opportunities and specific performance measures vary by seniority, with business-specific measures applied where appropriate. Senior managers are also eligible to participate in a long-term share incentive plan under which awards will normally vest after three years, subject to continued employment. Award sizes vary according to seniority and responsibility.

Directors' remuneration report

Directors' remuneration policy summary (continued)

Approach to remuneration on recruitment

External appointment

When recruiting a new Executive Director from outside the Group, the Committee may make use of all the existing components of remuneration. In addition, the Committee may consider it appropriate to grant an award under an alternative scheme or arrangement in order to facilitate recruitment of an individual, subject to the policy set out below:

Component	Approach
Base salary	The base salaries of new appointees will be determined by reference to relevant market data, the experience and skills of the individual, internal relativities and the appointee's current base salary. Where a new appointee has an initial base salary set below the market median, any subsequent adjustment will be managed by the Committee, using (where appropriate) phased increases and subject to the individual's development in the role.
Benefits	New appointees will be eligible to receive benefits in line with the remuneration policy, which may also include (but are not limited to) any necessary expenses relating to expatriation or relocation on recruitment.
SAYE schemes	New appointees will be eligible to participate on the same terms as all other employees.
SIP	New appointees will be eligible to participate on the same terms as all other employees.
Pension	New appointees will receive employer pension contributions which are aligned with those available to the workforce, being, at the date of this policy, 7.5% of pensionable salary, into a defined contribution pension arrangement or an equivalent taxable cash supplement or a combination of both.
Annual bonus	The annual bonus structure described in the remuneration policy will apply to new appointees (including the maximum opportunity), pro rated in the year of joining to reflect the proportion of that year employed. One-third of any bonus earned will be deferred into shares.
LTIP	New appointees may be granted awards under the LTIP of up to 200% of salary.
'Buy-out' awards	The Committee may consider it appropriate to grant a 'buy-out' award (with respect to either a bonus or a share-based incentive scheme) using either an existing incentive scheme or arrangement or an alternative scheme or arrangement in order to facilitate recruitment. When doing so, the Committee may, to the extent required, implement an arrangement referred to in Listing Rule 9.4.2. Any such 'buy-out' award would have a fair value no higher than that of the award forfeited. In granting any such award, the Committee will consider relevant factors, including any performance conditions attached to the forfeited awards, the likelihood of those conditions being met and the proportion of the vesting period remaining. When considering any performance conditions for any such award, the Committee will, where appropriate, take into account those used in the Company's existing incentive arrangements. Where appropriate, the Committee will also consider whether it is necessary to introduce further retention measures for an individual – for example, extended deferral periods.
Legal fees	The Company may agree to pay the reasonable legal fees incurred by a new appointee for advice received in relation to his/her contract of employment or service agreement.

In determining an appropriate remuneration package for a new Executive Director, the Committee will take into consideration such factors as it considers to be appropriate to ensure that the arrangements are in the best interests of the Company's shareholders.

Internal promotion

When recruiting a new Executive Director through internal promotion, the Committee will set remuneration in a manner consistent with the policy for external appointments set out above (other than with respect to 'buy-out' awards). Where an individual has contractual commitments made prior to their promotion to Executive Director level, the Company will continue to honour these commitments.

The remuneration of individuals below the Board is typically not greater than for Executive Directors.

Service contracts

A summary of the key elements of the Executive Directors' service agreements (insofar as they relate to remuneration) is as follows:

Term of contract	Summary of provisions
Notice period	12 months' notice (both to and from the Executive Director).
Payment in lieu of notice (PILON)	Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, pension contributions or allowance, car allowance and a sum representing the cost of private medical insurance. The Company may elect to provide private medical insurance and/or to allow an Executive Director to retain his or her company car through the notice period (or the balance of it) as an alternative to making cash payments. The Company is entitled to make the PILON on a phased basis, subject to mitigation, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.
Change of control	There are no payments due upon a change of control, although deferred bonus shares would be released.
Other entitlements on termination	There is no contractual entitlement to notice, or any other payments in respect of the period after cessation of employment, if the individual is summarily dismissed. If not required to take any remaining holiday entitlement during his/her notice period, the Executive Director will receive a payment for any accrued (but untaken) holiday entitlement.

Please see 'Payments for loss of office' below for a summary of other entitlements which may be due upon termination (and which relate to remuneration).

The service agreements are available for inspection at the Company's registered office.

Payments for loss of office

The Company's policy on payments for loss of office is as follows:

Component	Approach
Annual bonus	Individuals who are determined by the Committee to be 'good leavers' may be considered for an annual bonus in relation to the year in which their active employment ceases. When deciding whether to exercise its discretion to allow a payment in respect of an annual bonus (and, if so, its amount and the terms on which it may be paid), the Committee will consider such factors as it considers to be appropriate, including performance against bonus targets, the performance of the individual and the Group in general and the circumstances in which the individual is leaving office. Any payment to a 'good leaver' in respect of an annual bonus will typically be made at the same time as annual bonuses are paid to other employees. Clawback will continue to apply to the cash element of any payment made in respect of an annual bonus. Deferred shares allocated in part satisfaction of annual bonuses may be released upon cessation of employment if an individual is determined by the Committee to be a 'good leaver'. Otherwise, they will be released at the end of the three-year holding period (unless they are forfeited in the case of circumstances justifying summary dismissal).
LTIP	If an Executive Director ceases to be an employee or a director of a member of the Group for reasons of death, ill-health, injury, disability, redundancy (in relation to awards granted under the 2020 LTIP rules), retirement with the agreement of the Company, the sale or transfer of the business or part of the business of the Group in which the Executive Director is employed to a company which is not a member of the Group, his/her employing company ceasing to be a member of the Group or such other circumstances approved by the Committee, outstanding LTIP awards will be retained. If an Executive Director ceases to be an employee or a director of the Group for any other reason, his/her outstanding LTIP awards will lapse on the date of such cessation. Unvested LTIP awards will, subject to Committee discretion, normally be pro rated for length of service during the performance period and will, subject to performance, normally vest at the same time as all other awards in the LTIP award cycle. However, the Committee may also (at its discretion) permit unvested LTIP awards to vest on an accelerated basis to the extent determined by the Committee, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant. Any vested shares are subject to the two-year post-vesting holding period, irrespective of the date on which they vest. Please see 'Change of control' below for the policy which applies in the event of a change of control of the Company.
SIP and SAYE schemes	The Executive Directors are subject to the same 'leaver' provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.

Directors' remuneration report

Directors' remuneration policy summary (continued)

Component	Approach
Other	If the Company terminates an Executive Director's employment by reason of redundancy, the Company will make a redundancy payment to the Executive Director in line with his/her service agreement, any applicable collective bargaining agreement and applicable law and regulation. The Company may make a contribution towards an Executive Director's legal fees for advice relating to a compromise or settlement agreement and may also make other payments connected to the departure – for example, for outplacement services, tax advice and relocation costs. With respect to any such payments, the Committee will authorise what it considers to be reasonable in the circumstances.
Change of control	Deferred bonus shares will be released and, save as contemplated by the immediately following sentence, any outstanding LTIP awards will vest early to the extent determined by the Committee, having taken into account current and forecast progress against the performance condition(s), the proportion of the vesting period which has elapsed and any other factors considered by the Committee to be relevant; in such circumstances, no holding period will apply to the shares vesting and any holding period for previously vested LTIP awards will cease. Unless the Committee determines otherwise, if, following a change of control, the acquiring company has substantially the same shareholders and in approximately the same shareholdings as those of the Company prior to the change of control, the LTIP awards will be exchanged for equivalent awards over shares in the new holding company (and the holding period will continue to apply). Clawback will not apply to LTIP awards which vest as a result of a change in control or to any payments of cash bonuses made on a change of control. The rules of the SIP and the SAYE schemes will apply on a change of control. No payments are due under the Executive Directors' service agreements upon a change of control.

Where appropriate, the Committee will oblige the individual to mitigate his/her losses and may offset any alternative remuneration received by the individual against any notice or PILON payments made by the Company.

In exercising discretion in respect of any of the elements referred to above, the Committee will take into account such factors as it considers to be appropriate. These include, but are not limited to: the duration of the Executive Director's service; the Committee's assessment of the Executive Director's contribution to the success of the Group; whether the Executive Director has worked any notice period or whether a PILON is being made; the need to ensure an orderly handover of duties; and the need to compromise any claims which the Executive Director may have. Any use of Committee discretion will be disclosed in the relevant annual report on remuneration.

Consideration of employment conditions elsewhere in the Group

Employees are not formally consulted on the Executive Directors' remuneration and were not consulted during the preparation of the remuneration policy set out above. However, the Group's employee engagement surveys provide an opportunity for employees to provide their opinion on their own remuneration arrangements.

The Committee takes into account the overall pay and employment conditions of employees within the Group when making decisions on the Executive Directors' remuneration; for example, the Committee reviews the Group's latest gender pay gap information and, prior to setting the Executive Directors' remuneration, reviews detailed information relating to the workforce's remuneration. With respect to bonuses, the Committee encourages management to set targets which promote collaborative working practices across the Group so as to support the delivery of its strategy and promote its long-term sustainable success.

Consideration of shareholders' views

The views of shareholders, and guidance from shareholder representative bodies, are important to the Committee and provide the context for setting the remuneration of the Executive Directors. For example, when setting the 2020 remuneration policy, the Chair of the Remuneration Committee engaged with a number of major shareholders, whose feedback was reflected in the Committee's decision-making. Please see the Annual Statement of the Chair of the Remuneration Committee on pages 101 and 102 of the 2020 Annual Report.

The Committee will keep the remuneration policy under regular review so as to ensure that it continues to relate to the Company's long-term strategy and aligns the interests of the Executive Directors with those of the shareholders. In addition, the Committee will continue to monitor trends and developments in corporate governance and market practice to ensure the structure of executive remuneration remains appropriate.

Non-executive Director remuneration policy

General

The Non-executive Directors' remuneration (including that of the Chairman) reflects the anticipated time commitment to fulfil their duties. Non-executive Directors do not receive bonuses, long-term incentive awards, a pension or compensation on termination of their appointments. The policy on Non-executive Directors' remuneration is as follows:

Element and link to strategy	Operation	Opportunity	Performance measures
Fees To attract and retain Non-executive Directors of the calibre required and with appropriate skills and experience	Fee levels are reviewed annually with reference to individual experience, the external market and the expected time commitment required of the Director. Additional fees are payable to the Chairs of the Board's committees and to the Senior Independent Director.	Fees may be increased in line with the outcome of the annual review and will not normally exceed the increase awarded to the wider employee population. Higher increases may be awarded should there be a material change to the requirements of the role, such as additional time commitment. Any changes to fees will be disclosed in the annual report on remuneration for the relevant year.	None.
Benefits To reimburse Non-executive Directors for expenses	Reasonable and necessary expenses are reimbursed, together with any tax due on them.	Expenses (including, without limitation, travel and subsistence) incurred in connection with Kier business and any tax payable thereon.	None.

Recruiting Non-executive Directors

When recruiting a new Non-executive Director, the Committee will follow the policy set out in the table above.

Non-executive Director letters of appointment

The Non-executive Directors do not have service contracts but have entered into letters of appointment with the Company which can be terminated by either party on one month's notice or, in the case of the Chairman, six months' notice. The letters of appointment do not include any provisions for the payment of pre-determined compensation upon termination of appointment and are available for inspection at the Company's registered office. The Non-executive Directors are subject to annual re-election at the AGM.

Introduction

This Directors' Report and the Strategic report on pages 1 to 71 (inclusive) together comprise the 'management report' for the purposes of Disclosure Guidance and Transparency Rule 4.1.5R.

Information incorporated by reference

The following information is provided in other appropriate sections of this Annual Report and the financial statements and is incorporated into this Directors' Report by reference:

Information	Reported in	Pages
Corporate governance	Corporate Governance Statement Statement of Directors' responsibilities	72 to 97 (inclusive) 121
Directors	Board of Directors Directors' Remuneration Report – 'Directors' shareholdings and share interests'	78 and 79 105
Employee engagement	Social Leading the Company – 'Stakeholder engagement'	63 to 67 (inclusive) 83 to 85 (inclusive)
Employment of disabled persons	Social	67
Engagement with suppliers, customers and others	Social Leading the Company – 'Stakeholder engagement'	64 and 68 83 to 85 (inclusive)
Financial instruments	Financial statements – note 30	189 to 193 (inclusive)
Going concern	Board statements	75
Greenhouse gas emissions	Environment	57
Important events since the end of the financial year	Financial statements – note 35	203
Likely future developments	Chief Executive's review	8 to 11
Results and dividends	Financial review	42 to 49 (inclusive)

Disclosures required under Listing Rule 9.8.4R

The table below sets out the location of information required to be disclosed under Listing Rule 9.8.4R, where applicable.

Information required to be disclosed	Page(s)
(1) Amount of interest capitalised	n/a
(2) Publication of unaudited financial information	n/a
(4) Long-term incentive schemes	n/a
(5) – (11) Miscellaneous	n/a
(12) – (13) Waiver of dividends	119
(14) Agreement with controlling shareholders	n/a

Political donations

The Company made no political donations during the year (2020: nil).

Research and development

The Group undertakes research and development activities when providing services to its clients. The total amount of the direct expenditure incurred by the Group when undertaking such activities is not readily identifiable, as the investment is typically included in the relevant project.

Share capital

As at 30 June 2021, the issued share capital of the Company consisted of 446,165,699 ordinary shares of 1 pence each. During the 2021 financial year, the Company issued 284,049,829 ordinary shares of 1 pence each pursuant to the capital raise, on 18 June 2021. Between 1 July 2021 and 15 September 2021, 11,924 ordinary shares of 1 pence each were issued in connection with the exercise of options under the Kier Group plc Sharesave Scheme 2016. Further details of changes to the ordinary shares issued and of options and awards granted during the year are set out in notes 27 and 28 to the consolidated financial statements.

Subject to the provisions of the articles of association of the Company (the Articles) and prevailing legislation, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the Directors may decide.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, other than those that are set out in the Articles or apply as a result of the operation of law or regulation. The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the Company.

Substantial holdings

The table below is provided by our brokers, Numis, under the requests made to shareholders under section 793 of the Companies Act 2006 and information provided to the Company. As such this information is regarded by the Company as providing an up to date representation of our major shareholders' interests.

Shareholder	Interest
M&G Investments	9.10%
Aberdeen Standard Investments (Standard Life)	8.49%
Schroder Investment Management	6.75%
Hargreaves Lansdown Asset Management	5.53%
Jupiter Asset Management	5.42%
Aviva Investors	5.01%
JO Hambro Capital Management	4.26%
Lombard Odier Asset Management	3.87%
Polar Capital	3.28%
BlackRock Investment Management	3.03%

In addition, we have included below, the interests in the share capital of the Company which have been notified to the Company as at 15 September 2021 under Rule 5.1 of the Disclosure Guidance and Transparency Rules. The information in this table below is based on the latest notifications that have been made to the Company by the relevant shareholders; accordingly, it may not accurately represent the actual interests of the relevant shareholders in the share capital of the Company at the date of this Annual Report.

Shareholder ¹	Disclosed interest ²
M&G Plc	9.93%
Standard Life Aberdeen plc	8.97%
Jupiter Fund Management PLC	5.10%
Brewin Dolphin Limited	5.01%
Charles Stanley Group plc	5.00%
BlackRock, Inc	Below 5%
Aviva plc	4.93%
Rathbone Investment Management Limited	4.93%
Schroders plc	4.75%
Norges Bank	3.03%

¹ The most recent notification received by the Company from Woodford Investment Management Limited in July 2019 indicated a shareholding of 22,901,145 Shares, which would represent 5.13% of the Company's issued share capital as at 15 September 2021. Although the Company believes that the number of Shares held by Woodford Investment Management Limited has decreased significantly since that time, it has not received an updated notification of change in shareholding pursuant to the Disclosure Guidance and Transparency Rules.

² Subject to rounding.

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Rights under employee share schemes

As at 30 June 2021, JTC Employer Solutions Trustee Limited, as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 156,985 shares (approximately 0.04% of the Company's issued share capital at that date). These shares are made available to satisfy share-based awards granted to senior management under the Group's remuneration arrangements.

As at 30 June 2021, Yorkshire Building Society (YBS) held 5,723,052 shares (approximately 1.28% of the Company's issued share capital at that date) on trust for the benefit of members of the SIP. At the same date, YBS also held 4,740 shares (approximately 0.001% of the issued share capital at that date) on trust for the benefit of members of the legacy May Gurney Share Incentive Plan. YBS does not exercise any voting rights in respect of the shares held by the trust. YBS distributes dividends received to beneficiaries under the trust (although beneficiaries may authorise YBS to vote in accordance with their instructions).

As at 30 June 2021, the trustee of the May Gurney Limited Employee Share Ownership Trust and the trustee of the May Gurney Integrated Services PLC Employee Benefit Trust held, respectively, 532,935 and 19,045 shares (in aggregate, approximately 0.12% of the Company's issued share capital at that date). These shares are made available to satisfy awards of shares under the Group's remuneration arrangements. Neither of the trustees exercises any voting rights in respect of shares held by its respective trust and each waives dividends payable with respect to such shares.

Restrictions on voting rights

No shareholder will, unless the Board otherwise determines, be entitled to vote at any general meeting unless all calls or other sums then payable by the shareholder in respect of that share have been paid or if that shareholder has been served with a disenfranchisement notice.

The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights.

Appointment and replacement of Directors

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office until the next AGM of the Company after his/her appointment and is then eligible to stand for election.

Each of the Directors will stand for election or re-election by shareholders at the 2021 AGM. Further information about the Directors' skills and experience can be found on pages 78 and 79.

The Company may by ordinary resolution, of which special notice has been given, remove any Director before the expiry of the Director's period of office.

Directors' insurance and indemnities

The Directors have the benefit of the indemnity provisions contained in the Articles and the Company maintains directors' and officers' liability insurance for the benefit of the Directors and the Company's officers. The Company and Kier Limited have also entered into qualifying third party indemnity arrangements with each of their directors in a form and scope which comply with the Companies Act 2006. Each of these arrangements remain in force as at the date of this Annual Report.

Amendment of Articles

The Articles may be amended by a special resolution of the Company's shareholders. A resolution to adopt new Articles is being proposed for the 2021 AGM. Please see the 2021 Notice of AGM for more information.

Powers of the Directors

Subject to the Articles, applicable law and any directions given by shareholders, the Company's business is managed by the Board, which may exercise all the powers of the Company.

Powers in relation to the Company issuing its shares

The Directors were granted authority at the AGM on 17 December 2020 to allot shares in the Company (i) up to an aggregate nominal amount of £540,386 and (ii) up to an aggregate nominal amount of £1,080,772 in connection with a rights issue. The Directors were also granted authority to allot shares (i) non-pre-emptively and wholly for cash up to an aggregate nominal amount of £81,057 and (ii) for the purposes of financing an acquisition or other capital investment up to a further nominal amount of £81,057.

In addition, at a general meeting held on 16 June 2021 (the GM), the Directors were granted authority to allot shares in the Company up to an aggregate nominal amount of £2,840,498.30 pursuant to or in connection with the capital raise.

Powers in relation to the Company buying back its shares

The Company may only buy back shares if the Articles do not prohibit it from doing so and it has received the requisite authority from shareholders in general meeting. The Articles do not contain any such prohibition and the Company does not propose to seek such authority at the 2021 AGM.

Change of control

The Group's loan facility agreements with its UK lending banks, the note purchase agreements relating to the Group's US private placements of notes and the Group's Schuldschein loan agreements each contain provisions under which, in the event of a change of control of the Company, the Company may be required to repay all outstanding amounts borrowed.

Certain of the Group's commercial arrangements, including certain of its joint venture agreements, contract bond agreements and other commercial agreements entered into in the ordinary course of business, include change of control provisions.

Certain of the Group's employee share schemes or remuneration arrangements contain provisions relating to a change of control of the Company. Outstanding awards or options may become exercisable or vest upon a change of control.

There are no agreements between the Company and the Directors providing for compensation for loss of office that occurs as a result of a takeover bid (other than those referred to above).

Subsidiaries and branches

A list of the Group's subsidiaries and the branches through which the Group operates are listed in note 34 to the consolidated financial statements.

Auditors

The Board has decided that PricewaterhouseCoopers LLP will be proposed as the Group's auditors for the financial year ending 30 June 2022. A resolution relating to this re-appointment will be proposed at the forthcoming AGM.

AGM

The Company's 2021 AGM is scheduled to be held on 19 November 2021. Please see the Notice of AGM, for further information.

This Directors' Report was approved by the Board and signed on its behalf by:

JAIME THAM

Company Secretary

15 September 2021

2nd Floor, Optimum House
Clippers Quay
Salford M50 3XP

Corporate governance statement

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 Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as issued by the International Accounting Standards Board ('IASB') and the Company 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, 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 Group and Company and of the profit or loss of the Group 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 IFRSs as issued by the International Accounting Standards Board (IASB) have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, 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 Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and 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 Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in Annual Report confirm that, to the best of their knowledge:

- › the Group financial statements, which have been prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB), give a true and fair view of the assets, liabilities, financial position and loss of the Group;
- › the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities, financial position and loss of the Company; and
- › the Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

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 audit information of which the Group's and 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 Group's and Company's auditors are aware of that information.

Signed on behalf of the Board by:

ANDREW DAVIES
Chief Executive

SIMON KESTERTON
Chief Financial Officer

15 September 2021

Report on the audit of the financial statements

Opinion

In our opinion:

- › Kier Group plc's Group financial statements and Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 30 June 2021 and of the Group's loss and the Group's cash flows for the year then ended;
- › the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- › the Company financial statements 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
- › the financial statements 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 Accounts 2021 (the "Annual Report"), which comprise: the Consolidated and Company balance sheets as at 30 June 2021; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of changes in equity and the Consolidated cash flow statement for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Risk Management and Audit Committee ("RMaC").

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in note 4 to the financial statements, the Group, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, has also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the Group financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

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 Group 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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 4 to the financial statements, we have provided no non-audit services to the Company or its controlled undertakings in the period under audit.

Our audit approach

Overview

	Audit scope › The Group is primarily UK based and we have conducted audit work across all three of the Group's divisions and achieved coverage over 98% (2020: 91%) of Group revenues. Key audit matters › Contract accounting (Group) › Presentation of the Group's financial performance (Group) › Impairment of goodwill (Group) › Carrying value of property development inventory (Group) › Covid-19 (Group) › Carrying value of investments in Kier Limited (Company) Materiality › Overall Group materiality: £7.7m (2020: £9.1m) based on a three year average of 5% of statutory results before tax from continuing operations. › Overall Company materiality: £6.9m (2020: £8.1m) based on 1% of total assets limited by the allocation of component materiality. › Performance materiality: £5.8m (Group) and £5.2m (Company).
--	--

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

In our 2020 audit opinion, we included a key audit matter in respect of going concern. This was not considered to be a key audit matter in our 2021 audit. The procedures performed, and conclusions reached, in respect of going concern are described in the "Conclusions relating to going concern" section of our report. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Contract accounting (Group) Refer to page 91 (Risk Management and Audit Committee report) and page 143 (Accounting policy). The Group has significant long-term contracts in its Infrastructure Services and Construction businesses. The recognition of revenue in respect of construction contracts in accordance with IFRS 15 is based on the stage of completion of contract activity. Profit on contracts is a significant risk for our audit because of the uncertainty inherent in preparing suitable estimates of the forecast costs and revenue on contracts. An error in the contract forecast could result in a material variance in the amount of profit or loss recognised to date and therefore also in the current financial year. The Group operates in an industry in which contracts allow a route to recovery that may be disputed or become subject to contract resolution procedures. The settlement process can be time consuming and can result in an outcome that varies from the amount claimed. These contract issues may exist in the supply chain, or with customers. These estimates include the expected recovery of costs arising from the following: variations to the contract requested by the customer, compensation events, and claims made both by and against the Group for delays or other additional costs arising or projected to arise. The Group's accounting policy is to recognise additional contractual amounts receivable from customers only when these amounts are considered highly probable of no significant reversal. Claims receivable from third parties (other than the Group's customers) are recognised only when they are determined to be 'virtually certain' of recoverability.	We focused our work on those contracts with the greatest estimation uncertainty over the final contract values and therefore profit outcome. Our work included the following procedures: › We challenged management's forecasts, in particular assessing the appropriateness of the key assumptions, which included the expected recovery of variations, claims and compensation events from clients, to determine the basis on which the associated revenue was considered to be 'highly probable of no significant reversal'; › We also challenged those assumptions in respect of estimated recoveries from subcontractors, designers, and insurers included in the forecast, to determine whether these could be considered 'virtually certain' of recoverability, and obtained corroborating evidence to support positions taken; › We attended contract review meetings via conference calls, and inspected minutes of meetings that considered value cost reconciliations ('VCRs') in order to understand the controls operated by management; › We substantively tested a sample of costs incurred to date to check that these had been recorded accurately; › We confirmed that where incremental costs had been incurred in respect of Covid-19, that these costs had been appropriately considered in the end of life forecasts ('ELFs'); › We performed a margin analysis on the end-of-life forecasts (ELFs) to assess the performance of the contract portfolios year on year; › We inspected correspondence and meeting minutes with customers concerning variations, claims and compensation events, and obtained third party assessments of these from legal or technical experts contracted by the Group, if applicable, to assess whether this information was consistent with the estimates made; › We discussed the status of certain third party claims with external solicitors and, where relevant, external experts, and assessed the objectivity and independence of these third parties; › We inspected correspondence with insurers relating to recognised insurance claims as well as assessments of these undertaken by the insurers and Group's external solicitors, where applicable, to assess whether this information supported the position taken on the contract; › We also tested a sample of lower risk contracts including obtaining the latest certification from the customer and testing a sample of costs to come by agreeing the amounts to supporting evidence; › We considered significant write-offs of contract assets during the year and obtained evidence in respect of a sample of contracts which demonstrated that the write-offs were driven by events during the 2021 financial year; and › We considered the adequacy of the disclosures in the financial statements in relation to specific contracts and also the disclosures in respect of significant judgements and estimates. Overall based on these procedures, we are satisfied that the work in progress relating to the Group's contracts is appropriately stated and that revenue and profits have been recorded appropriately.

Financial Statements

Independent auditors' report to the members of Kier Group plc (continued)

Key audit matter	How our audit addressed the key audit matter
Presentation of the Group's financial performance (Group) Refer to page 91 (Risk Management and Audit Committee report) and page 144 (Accounting policy). Consistent with the prior year, the Directors present the Group's principal Alternative Performance Measure as 'Adjusted Operating Profit' so the Group's APM is consistent with how management reviews the performance of the business. The Group's adjusted profit from operations of £100.3 million is stated after charging: › £21.0 million of amortisation of acquired intangibles; › £31.6 million of restructuring and related charges; › £0.5 million of costs associated with the preparation for business divestment or closure; and › £3.5 million of other adjusting items. The determination of which items are treated as 'adjusting' is judgemental and needs to be consistent with how the Directors review the segmental performance of the business. Users of the financial statements could be misled if amounts are not classified and disclosed in a transparent manner and consistent with the way in which the Board is reviewing segmental performance.	We considered whether the presentation of adjusted operating profit is appropriate. In doing this we performed the following procedures: › We obtained the latest internal Board reporting to evaluate whether the nature and quantum of the adjustments presented, for the Group and in respect of the segments, was consistent with those highlighted and adjusted in the financial statements; › We reviewed the definition and classification of adjusting items in the Group's Annual Report, including the sub-categorisation of these items. In particular: › We challenged whether it was appropriate to present certain costs within the Regional Southern Build business as restructuring and related charges, on the basis that they related to contract and tender positions. We accepted this judgement on the basis that the costs were a result of the ongoing strategic exit of the regional business, which had also been heavily impacted by Covid-19; and › In respect of the £11.9 million of professional adviser fees and other costs incurred implementing non-people initiatives, we challenged whether certain adviser fees should instead have been charged to equity, debt or the Living disposal. On the basis that these costs represented costs not directly attributable to any transaction we accepted that this treatment was appropriate. We were also satisfied that the costs were not charged to adjusted operating profit as they related to the Group's significant strategic review activities. › We reviewed management's disclosures and ensured that sufficient disclosure was provided to justify why individual items were treated as adjusting. Overall based on these procedures we were satisfied with the presentation of the Group's profit before adjusting items, and that the reason for the use of this APM has been properly disclosed. We also ensured that there was appropriate balance in the Group's Annual Report between references to the adjusted profit and the Group's statutory loss for the year.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill (Group) Refer to page 91 (Risk Management and Audit Committee report) and page 144 (Accounting policy). The Group has £536.7 million of goodwill on its balance sheet at 30 June 2021 of which £516.3 million related to the Infrastructure Services cash generating unit ('CGU') and £20.4m related to the Construction CGU. The audit of goodwill was a focus area given the value of the Group's assets in comparison to its market capitalisation. We determined there to be a significant audit risk that the carrying value of goodwill allocated to Infrastructure Services may not be supportable when compared to its recoverable amount, given headroom of £117.7 million in the Directors' impairment assessment.	In evaluating the Directors' annual impairment assessment for goodwill in respect of Infrastructure Services, we performed the following procedures: › We assessed the allocation of goodwill and acquired intangibles to Cash Generating Units (CGUs) and considered the Directors' conclusion that the significant majority of goodwill related to Infrastructure Services; › We evaluated whether the basis of allocation of corporate assets and central costs to the CGUs was reasonable; › We obtained the Board-approved three year cash flow forecasts which formed the basis of the model used in the Directors' impairment calculation. We considered whether the planned growth rates and expected operating margins in the impairment model were consistent with the Board-approved cash flows; › We tested certain contracts in the Group's pipeline to provide evidence of the associated revenue forecast in the cash flow model; › We challenged management's forecasts and compared future cash flow performance to historic levels as part of our assessment as to whether the planned performance was considered achievable; › We challenged the assumption within the forecast that the business's cash flows would be earned into perpetuity; › We tested the discount rate and long-term growth rate applied with the support of our internal valuation experts; and › We sensitised the short-term and long-term growth rates applied to revenue and operating profit and established the impact of reasonably possible changes in these assumptions; we then ensured that these sensitivities were appropriately disclosed in accordance with IAS 36, 'Impairment of assets'. Based on the procedures performed, we were satisfied with the carrying value of Infrastructure Services goodwill, and with the associated disclosures included in the financial statements.
Carrying value of property development inventory (Group) Refer to page 91 (Risk Management and Audit Committee report), page 144 (Accounting policy). Inventory in the Property division is stated at the lower of cost and net realisable value (i.e. the forecast selling price less the remaining costs to build and sell). An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon management's estimate of forecast selling prices and build/development costs (by reference to current prices), which may require significant judgement. We considered there to be a significant risk in respect of £39.1 million of commercial property development on the Group's balance sheet and a further £172.0 million of work in progress held in the Group's joint ventures, given continued uncertain market conditions.	We obtained the Directors' assessment of the recoverability of the property portfolio and performed the following procedures: › We discussed with management and evaluated the reasons for significant changes in cost and sales assumptions in the site appraisals compared to the previous year; › With the support of our internal real estate valuation experts we compared the valuations in the Directors' assessment to the most recent external valuations of each site; and › We assessed the methodology and key assumptions in these valuations. Based on the evidence obtained we are satisfied with the carrying value of inventory at 30 June 2021.

Financial Statements

Independent auditors' report to the members of Kier Group plc (continued)

Key audit matter	How our audit addressed the key audit matter
Covid-19 (Group) Whilst the Covid-19 pandemic continues to create uncertainty, including supply chain related pressures, its impact has been more limited than in the prior year with the construction sector continuing to operate during the most recent national lockdowns that took place in the first half of 2021. Notwithstanding this we have considered potential future impacts of the pandemic on the financial statements. Areas where there remains a risk of increased estimation uncertainty are described below: - i.) The Directors have carefully considered the appropriateness of the going concern basis of preparation in the Group's financial statements, including assessing the ongoing impact of Covid-19 during the forecast period; - ii.) Covid-19 has continued to have an impact on the Group's execution of long-term contracts although many of these impacts have now become business as usual and have been priced into customer contracts. To the extent that there are any incremental costs which are considered to be part of the cost of delivering a contract, these should be factored into the end of life forecast ('ELF') and not expensed to the Income Statement. Covid-19 has also had a significant impact on many of the Group's private sector customers and in some cases has impacted the Group's ability to recover costs of contract variations from customers that in normal circumstances would have been more easily recovered; - iii.) The Group has £536.7 million of goodwill as at 30 June 2021. Given the uncertainty caused by the pandemic there is higher estimation uncertainty related to the key assumptions in management's value in use calculation, such that reasonably possible changes in assumptions could materially reduce the value in use of the Infrastructure Services CGU, against which £516.3 million of the Group's goodwill is allocated. - iv.) A £138.0 million deferred tax asset is held on the Group's Balance Sheet in respect of carried forward tax losses. There is a risk that in the event that taxable future profits fall below those forecast by management, there would be insufficient profits against which to utilise these losses.	In response to the key areas identified as being potentially impacted by Covid-19, we performed the following procedures: - i.) Refer to the Conclusions relating to going concern sections below for details of how we considered the impact of Covid-19 in our audit procedures over going concern; - ii.) Refer to our Key Audit Matter above for details of how we considered the impact of Covid-19 in our procedures over contract accounting; - iii.) Refer to our Key Audit Matter above for details of how we considered the impact of Covid-19 in our procedures over impairment of goodwill and intangible assets; - iv.) We reviewed the cash flow forecasts underpinning management's assessment of the future taxable profits against which tax losses could be utilised. These forecasts were consistent with those used in the goodwill model and had been appropriately amended to reflect estimated future taxable profits. We were satisfied that, based on these forecasts and downside sensitivities applied to these forecasts, there are sufficient future taxable profits expected to be available to utilise these tax losses, and therefore that the recognition of the deferred tax asset is supportable.
Carrying value of investments in Kier Limited (parent) Refer to page 91 (Risk Management and Audit Committee report) and page 211 (Company notes to the financial statements). The Company holds investments in subsidiaries of £429.2 million, the largest of which is in Kier Limited of £412.2 million. We focused on this area due to the size of the investments' balance in the context of the Group's market capitalisation. The Directors' assessment of the carrying value of the investment in Kier Limited was that no impairment was required.	We reviewed the Directors' impairment assessment of the carrying value of the investment in Kier Limited. In respect of the investment in Kier Limited, we agreed the cash flows used in this assessment to the forecasts used in the assessment of impairment of goodwill and other intangible assets. Our work performed on those cash flows is set out in the Goodwill Key Audit Matter above. As a result of these procedures, we were satisfied with the Directors' conclusion that no impairment was required against the carrying value of the investment in Kier Limited.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's operations and reporting process are structured into three divisions represented by Infrastructure Services, Construction and Property. The Group audit partner, supported by other UK engagement leaders, led UK based teams responsible for the audit of each of these divisions. The three divisions include a number of reporting units in the Group's consolidation, each of which is considered to be a financial component.

The significant majority of the Group's operations are concentrated in the UK and account for 98% of the Group's revenue, with the remaining 2% generated from overseas businesses. We instructed a component team in Dubai to perform full scope audit procedures on the Group's Middle East construction business. Our audit approach was designed to obtain coverage over 98% of the Group's revenue which included UK and overseas operations. We are satisfied that we obtained appropriate audit coverage over the Group's income statement, balance sheet and cash flows through our audit work on the UK and overseas operations.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – Group	Financial statements – Company
Overall materiality	£7.7m (2020: £9.1m).	£6.9m (2020: £8.1m).
How we determined it	Three year average of 5% of statutory results before tax from continuing operations.	1% of total assets limited by the allocation of component materiality.
Rationale for benchmark applied	We considered that the most appropriate benchmark on which to calculate materiality was the Group's statutory result before tax from continuing operations. Given the volatility in earnings over the last three years, in particular due to the strategic changes in the business and the impact of Covid-19, we adopted a three year average of the Group's statutory results.	We believe that total assets is the primary measure for shareholders of the financial statements of the ultimate holding company of the Group.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £0.4 million and £6.9 million. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £5.8 million for the Group financial statements and £5.2 million for the Company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Risk Management and Audit Committee ("RMaC") that we would report to them misstatements identified during our audit above £0.4 million (Group audit) (2020: £0.45 million) and £0.4 million (Company audit) (2020: £0.45 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- › Reviewing management's going concern paper to ensure it was based upon the latest Board approved forecasts and that the cash flow assumptions were consistent with our understanding of the outlook for the Group's businesses and the wider market;
- › Performing sensitivity analysis over management's forecasts in order to determine whether under severe but plausible scenarios the Group's peak debt could exceed its lending limits and whether management has mitigating actions available to it, and within its control, to prevent such a situation occurring;
- › Comparison of the prior year forecasts against current year actual performance to assess management's ability to forecast accurately;
- › Obtaining and reviewing the renegotiated financing agreements between the Group and its lenders following the agreement to sell the Kier Living business in April 2021;
- › Reviewing management's covenant calculations, covering the period from 30 June 2021 to 31 December 2022 ensuring that the covenant thresholds and definitions were consistent with the financing agreements;
- › Considering the forecasts and downside sensitivities prepared, including whether they appropriately reflected the ongoing risk of Covid-19 on the Group's operations; and
- › Inspecting lending limits and availability of finance, ensuring that the accounting for these arrangements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Financial Statements

Independent auditors' report to the members of Kier Group plc (continued)

In relation to the Directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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.

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 our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2021 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 Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Directors' remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the Directors' statements in relation to going concern, longer-term viability and that part of the Corporate governance statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the Corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- › The Directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- › The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- › The Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- › The Directors' explanation as to their assessment of the Group's and Company's prospects, the period this assessment covers and why the period is appropriate; and
- › The Directors' statement as to whether they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the Directors' statement regarding the longer-term viability of the Group was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the Group and Company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- › The Directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position, performance, business model and strategy;
- › The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- › The section of the Annual Report describing the work of the Risk Management and Audit Committee ("RMAc").

We have nothing to report in respect of our responsibility to report when the Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

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, 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 Group's and 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 Group or 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK pensions, employment and tax legislation, data protection rules, the Health and Safety Executive legislation and equivalent local laws and regulations applicable to overseas operations. We considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to fraudulent financial reporting and management bias in long-term contracting accounting estimates. The Group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the Group engagement team and/or component auditors included, but were not limited to:

- › Discussions with management, Internal Audit and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- › Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- › Reading key correspondence with external legal advisers;
- › Review of external press releases;
- › Challenging assumptions and judgements made by management in the estimates involved in accounting for long-term contracts; and
- › Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unusual words and unusual users.

Financial Statements

Independent auditors' report to the members of Kier Group plc (continued)

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

Other required reporting

Companies Act 2006 exception reporting

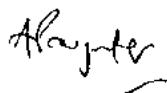
Under the Companies Act 2006 we are required to report to you if, in our opinion:

- › we have not obtained 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 Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Risk Management and Audit Committee ("RMaC"), we were appointed by the Directors on 24 September 2014 to audit the financial statements for the year ended 30 June 2015 and subsequent financial periods. The period of total uninterrupted engagement is 7 years, covering the years ended 30 June 2015 to 30 June 2021.



ANDREW PAYNTER

Senior Statutory Auditor

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London

15 September 2021

Financial statements
Consolidated income statement
For the year ended 30 June 2021

	Notes	2021 £m	2020 ² £m
Continuing operations			
Revenue	2		
Group and share of joint ventures	3	3,328.5	3,475.6
Less share of joint ventures	3	(67.5)	(53.1)
Group revenue		3,261.0	3,422.5
Cost of sales		(2,976.9)	(3,220.4)
Gross profit		284.1	202.1
Administrative expenses		(240.1)	(391.7)
Share of post-tax results of joint ventures	16	(0.3)	(6.6)
Profit on disposal of joint ventures and subsidiaries		–	0.6
Profit/(loss) from operations	3, 4	43.7	(195.6)
Finance income	7	3.7	6.7
Finance costs	7	(41.8)	(36.4)
Profit/(loss) before tax	3	5.6	(225.3)
Taxation	10	17.4	53.4
Profit/(loss) for the year from continuing operations	3	23.0	(171.9)
Discontinued operations			
Loss for the year from discontinued operations (attributable to equity holders of the parent)	23	(24.6)	(101.4)
Loss for the year	3	(1.6)	(273.3)
Attributable to:			
Owners of the parent		(0.3)	(273.3)
Non-controlling interests		(1.3)	–
		(1.6)	(273.3)
Earnings/(loss) per share from continuing operations			
– Basic	12	11.6p	(85.3)p
– Diluted	12	11.4p	(85.3)p
Total earnings/(loss) per share			
– Basic	12	(0.1)p	(135.5)p
– Diluted	12	(0.1)p	(135.5)p
Supplementary information from continuing operations			
Adjusted ¹ operating profit	5	100.3	41.4
Adjusted ¹ profit before tax	5	65.4	16.9
Adjusted ¹ earnings per share	12	25.0p	12.2p
Adjusted ¹ diluted earnings per share	12	24.6p	12.2p

¹ Reference to 'adjusted' excludes adjusting items, see notes 1 and 5.

² Earnings per share has been re-presented in the comparative information as a result of the equity raise which completed on 18 June 2021, see note 27.

Financial statements
Consolidated statement of comprehensive income
For the year ended 30 June 2021

	Notes	2021 £m	2020 £m
Loss for the year		(1.6)	(273.3)
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements on cash flow hedging instruments	16	–	(0.3)
Fair value (loss)/gain on cash flow hedging instruments	30	(16.6)	5.7
Fair value movements on cash flow hedging instruments recycled to the income statement	7	15.0	(2.3)
Deferred tax credit/(charge) on fair value movements on cash flow hedging instruments	10	0.3	(0.7)
Foreign exchange gains on long-term funding of foreign operations		–	1.0
Foreign exchange translation differences		(3.2)	0.1
Foreign exchange movements recycled to the income statement	7	0.1	3.3
Total items that may be reclassified subsequently to the income statement		(4.4)	6.8
Items that will not be reclassified to the income statement			
Re-measurement of retirement benefit assets and obligations	9	(29.8)	(6.2)
Deferred tax on re-measurement of retirement benefit assets and obligations	10	4.8	6.4
Total items that will not be reclassified to the income statement		(25.0)	0.2
Other comprehensive (loss)/income for the year		(29.4)	7.0
Total comprehensive loss for the year		(31.0)	(266.3)
Attributable to:			
Equity holders of the parent		(29.7)	(266.3)
Non-controlling interests – continuing operations		(1.3)	–
		(31.0)	(266.3)
Total comprehensive loss attributable to equity shareholders arises from:			
Continuing operations		(5.1)	(164.9)
Discontinued operations		(24.6)	(101.4)
		(29.7)	(266.3)

Financial statements
Consolidated statement of changes in equity
For the year ended 30 June 2021

	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Accumulated losses £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 30 June 2019		1.6	684.3	2.7	(306.8)	(1.2)	3.7	134.8	519.1	0.5	519.6
Impact of adopting IFRS 16		–	–	–	(16.6)	–	–	–	(16.6)	–	(16.6)
At 1 July 2019		1.6	684.3	2.7	(323.4)	(1.2)	3.7	134.8	502.5	0.5	503.0
Loss for the year		–	–	–	(273.3)	–	–	–	(273.3)	–	(273.3)
Other comprehensive income		–	–	–	0.2	2.4	4.4	–	7.0	–	7.0
Dividends paid		–	–	–	–	–	–	–	–	(0.4)	(0.4)
Share-based payments	28	–	–	–	5.4	–	–	–	5.4	–	5.4
Purchase of own shares		–	–	–	(0.9)	–	–	–	(0.9)	–	(0.9)
At 30 June 2020		1.6	684.3	2.7	(592.0)	1.2	8.1	134.8	240.7	0.1	240.8
Loss for the year		–	–	–	(0.3)	–	–	–	(0.3)	(1.3)	(1.6)
Other comprehensive losses		–	–	–	(25.0)	(1.3)	(3.1)	–	(29.4)	–	(29.4)
Issue of own shares	27	2.9	–	–	–	–	–	215.8	218.7	–	218.7
Share-based payments	28	–	–	–	7.0	–	–	–	7.0	–	7.0
Purchase of own shares	28	–	–	–	(0.5)	–	–	–	(0.5)	–	(0.5)
At 30 June 2021		4.5	684.3	2.7	(610.8)	(0.1)	5.0	350.6	436.2	(1.2)	435.0

The numbers in the table above are shown net of tax as applicable.

Financial statements
Consolidated balance sheet
As at 30 June 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Intangible assets	13	697.2	720.6
Property, plant and equipment	14	43.3	42.3
Right-of-use assets	24	96.5	100.9
Investment properties	15	49.6	49.8
Investments in and loans to joint ventures	16	98.9	105.6
Capitalised mobilisation costs	17	3.8	1.9
Deferred tax assets	18	138.0	111.0
Contract assets	19	30.7	28.8
Trade and other receivables	20	24.1	32.9
Retirement benefit assets	9	87.2	99.5
Other financial assets	30	11.4	30.0
Non-current assets		1,280.7	1,323.3
Current assets			
Inventories	21	54.7	60.0
Contract assets	19	335.7	249.7
Trade and other receivables	20	203.1	236.4
Corporation tax receivable		13.6	12.5
Other financial assets	30	2.0	–
Cash and cash equivalents	22	391.2	413.9
Current assets		1,000.3	972.5
Assets held for sale as part of a disposal group	23	–	196.7
Total assets		2,281.0	2,492.5
Current liabilities			
Borrowings	22	(38.2)	(61.6)
Lease liabilities	24	(27.4)	(33.1)
Trade and other payables	25	(1,093.1)	(957.5)
Contract liabilities	19	(59.9)	(108.7)
Provisions	26	(14.9)	(20.8)
Current liabilities		(1,233.5)	(1,181.7)
Liabilities held for sale as part of a disposal group	23	–	(81.7)
Non-current liabilities			
Borrowings	22	(362.3)	(689.8)
Lease liabilities	24	(136.4)	(139.8)
Trade and other payables	25	(39.9)	(46.5)
Retirement benefit obligations	9	(41.0)	(60.7)
Provisions	26	(32.9)	(51.5)
Non-current liabilities		(612.5)	(988.3)
Total liabilities		(1,846.0)	(2,251.7)
Net assets	3	435.0	240.8
Equity			
Share capital	27	4.5	1.6
Share premium		684.3	684.3
Capital redemption reserve		2.7	2.7
Accumulated losses		(610.8)	(592.0)
Cash flow hedge reserve		(0.1)	1.2
Translation reserve		5.0	8.1
Merger reserve	27	350.6	134.8
Equity attributable to owners of the parent		436.2	240.7
Non-controlling interests		(1.2)	0.1
Total equity		435.0	240.8

The financial statements of Kier Group plc, company registration number 2708030, on pages 131 to 203 were approved by the Board of Directors on 15 September 2021 and were signed on its behalf by:

ANDREW DAVIES	SIMON KESTERTON
Chief Executive	Chief Financial Officer

Financial statements
Consolidated cash flow statement
For the year ended 30 June 2021

	Notes	2021 £m	2020 ¹ £m
Cash flows from operating activities			
Profit/(loss) before tax – continuing operations		5.6	(225.3)
– discontinued operations	5, 23	(24.6)	(101.4)
Net finance cost	7	38.1	29.7
Share of post-tax trading results of joint ventures	16	0.3	0.2
Normal cash contributions to pension fund in excess of pension charge	9	0.7	0.2
Equity-settled share-based payments charge	28	7.0	5.4
Amortisation of intangible assets and mobilisation costs	13, 17	30.9	36.9
(Reversal of impairment)/impairment of assets held for sale, intangible assets and investment properties	5, 13, 15	(5.1)	57.0
Research and development expenditure credit	10	(13.3)	(10.2)
Depreciation of property, plant and equipment	14	6.4	7.6
Depreciation and impairment of right-of-use assets	24	33.7	46.0
Loss/(profit) on disposal of joint ventures and subsidiaries	33	12.1	(0.6)
(Profit)/loss on disposal of property, plant and equipment and intangible assets		(0.2)	4.9
Operating cash inflows/(outflows) before movements in working capital and pension deficit contributions		91.6	(149.6)
Deficit contributions to pension funds	9	(37.0)	(25.0)
Decrease in inventories	22	3.9	44.2
Decrease in receivables	22	43.0	108.1
(Increase)/decrease in contract assets	22	(95.3)	212.2
Increase/(decrease) in payables	22	100.7	(278.6)
Decrease in contract liabilities		(48.8)	(20.5)
Decrease in provisions	22	(31.3)	(4.0)
Cash inflow/(outflow) from operating activities		26.8	(113.2)
Dividends received from joint ventures	16	6.3	28.9
Interest received	7	3.7	6.7
Income tax received	10	11.2	5.9
Net cash inflow/(outflow) from operating activities		48.0	(71.7)
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		2.5	1.6
Proceeds from sale of subsidiaries and joint ventures, net of cash disposed	33	120.8	14.1
Purchase of property, plant and equipment	14	(3.3)	(3.8)
Purchase of intangible assets	13	(3.1)	(4.0)
Purchase of capitalised mobilisation costs	17	(3.5)	(0.8)
Investment in joint ventures	16	(9.2)	(14.2)
Loan repayment and return of equity from joint ventures ¹	16	9.3	9.4
Classification to assets held for resale		–	(0.1)
Net cash from investing activities		113.5	2.2
Cash flows from financing activities			
Issue of shares net of associated transaction costs	27	224.8	–
Purchase of own shares	28	(0.5)	(0.9)
Interest paid		(28.4)	(34.9)
Principal elements of lease payments	24	(39.6)	(40.4)
Drawdown of borrowings		–	274.7
Repayment of borrowings	22	(337.4)	(30.3)
Settlement of derivative financial instruments		–	(0.5)
Dividends paid to non-controlling interests		–	(0.4)
Net cash (used in)/from financing activities		(181.1)	167.3
(Decrease)/increase in cash, cash equivalents and overdraft		(19.6)	97.8
Effect of change in foreign exchange rates		(3.1)	4.4
Opening cash, cash equivalents and overdraft		413.9	311.7
Closing cash, cash equivalents and overdraft	22	391.2	413.9
Supplementary information			
Adjusted cash flow from operating activities	5	98.9	(19.7)

¹ £9.4m has been re-presented in the comparative information from financing activities to investing activities for loan repayment and return of equity from joint ventures. See note 1.

Financial statements
Notes to the consolidated financial statements
For the year ended 30 June 2021

1 Significant accounting policies

Kier Group plc (the Company) is a public limited company which is listed on the London Stock Exchange and incorporated and domiciled in the UK. The Company's registered number is 2708030. The consolidated financial statements of the Company for the year ended 30 June 2021 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in joint arrangements.

The consolidated financial statements were approved by the Directors on 15 September 2021.

Statement of compliance

The Group's consolidated financial statements have been prepared and approved by the Directors in accordance with International Accounting Standards, in conformity with the requirements of the Companies Act 2006, and International Financial Reporting Standards, adopted pursuant to regulation (ED) 1606/2000 as it applies in the European Union and effective for accounting periods beginning on or after 1 July 2020.

The Company has elected to prepare its parent company financial statements in accordance with the FRS 101 'Reduced Disclosure Framework'. These are presented on pages 204 to 210.

Basis of preparation

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for investment properties, defined benefit pension plans and derivative financial instruments which are stated at their fair value, and the IFRS 2 share-based payments charge which is based on the fair value of the options granted.

The following new amendments to standards are effective for the financial year ended 30 June 2021 onwards:

- Amendments to IFRS 3 'Business Combinations' on the definition of a business
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting policies' on the definition of material
- Amendments to IFRS 9, IAS 39 and IFRS 7 (financial instruments standards) on interest rate benchmark reform
- Amendments to IFRS 16 'Leases' for COVID-19 related rent concessions

None of the above amendments to standards has had a material effect on the Group's financial statements.

The following new standards and amendments to standards have been issued but were not yet effective and therefore have not been applied in these financial statements:

- IFRS 17 'Insurance Contracts'
- Amendments to IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' for interest rate benchmark reform (phase 2)
- Amendments to IAS 1 'Presentation of Financial Statements' on classification of liabilities
- Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (published May 2020)
- Narrow-scope amendments to IAS 1, Practice statement 2 and IAS 8 (published February 2021)
- Amendments to IAS 12 'Income Taxes' on deferred tax related to assets and liabilities arising from a single transaction

IFRS 17 will replace IFRS 4, which currently permits a wide variety of practices in accounting for insurance contracts. IFRS 17 will fundamentally change the accounting by entities that issue insurance contracts. The new standard will first be applied by

the Group in the accounting year ended 30 June 2024. Whilst the Group's activities do not include the issuing of insurance contracts to parties outside of the Group, the Group does have its own captive insurance company, Tempsford Insurance Company Limited. The Directors are considering the potential impact of IFRS 17 on the financial statements of this subsidiary and on the Group's consolidated figures.

With the exception of IFRS 17 which is still being considered, no significant net impact from the adoption of the above amendments to standards is expected. The Group has chosen not to adopt any of the above standards or amendments earlier than required.

Going concern

The Directors continue to adopt the going concern basis in preparing the Group's financial statements.

The Group delivered improved results in FY21 demonstrating the significant progress made on the operational and financial turnaround strategy announced in June 2019: to simplify and focus the Group, improve the Group's cash generation and strengthen its balance sheet.

The sale of Kier Living and the new share issue enabled the successful completion of the funding elements of the Group's strategic plan. The transactions facilitated a reduction in the Group's net debt, with a repayment of £189m of facilities prior to 30 June 2021; they have provided the Group with more working capital, and with less associated volatility; and they have removed the capital requirement to support residential land acquisition and presence of unconsolidated debt in certain joint ventures.

Along with the reduction in debt facilities in the year, the Group has also agreed and signed an extension to its Revolving Credit Facility (RCF) which was due to expire in July 2022. This has been extended to January 2025, with covenant requirements reset accordingly (see note 30).

The Group performed well through the year ended 30 June 2021 and produced results slightly above the Board's expectations. Average net debt compared to the prior year has reduced slightly compared to FY20, and is expected to materially reduce going forward following the corporate actions noted above. The Group continues to win new business in its markets on terms and at rates which reflect the new bidding disciplines and risk management practices introduced under the Group's Performance Excellence programme. The orderbook as at 30 June 2021 was generally in line with the position at 30 June 2020 at £7.7bn.

Following the revised debt facility agreements, at 30 June 2021, the Group had £685.0m of unsecured committed facilities, £18.0m of uncommitted overdrafts and £79.1m of uncommitted supply chain financing facilities (see notes 25 and 30).

Financial covenant certificates for September 2020, December 2020, March 2021 and June 2021 have been prepared with no breaches noted. The Directors have reviewed the Group's cash flow forecasts for the period to 31 December 2022, which are included in the Group's three-year strategic plan, on the basis of certain key assumptions and including a number of stressed but plausible downside scenarios.

These scenarios included the consideration of risks which may arise to the Group's available liquidity and its ongoing compliance with revised financial covenants within the Group's principal debt facilities as a result of or in light of the following factors or circumstances:

- The continued and ongoing impact of COVID-19, in respect of which a full shut-down of the construction sector akin to that of March 2020 was not considered plausible in light of the

experience of Government restrictions imposed during the first half of 2021;

- › Potential reductions in trading volumes;
- › Potential margin erosion;
- › Risks in respect of certain specific projects; and
- › The availability of supply-chain finance.

The Board also considered the macroeconomic and political risks affecting the UK economy, including the availability of labour and increased supply chain costs. The Board noted that the Group's forecasts are underpinned by a significant proportion of revenue that is either secured or considered probable, often as part of long-term framework agreements, and that the Group operates primarily in sectors such as health, education and utilities, which are considered likely to remain largely unaffected by macroeconomic factors.

The Group is expected to continue to have available liquidity headroom under its finance facilities and operate within the revised financial covenants over the going concern period. The available headroom in a downside scenario has significantly increased compared to previous years. The Directors therefore believe the risk associated with going concern has reduced following the corporate actions taken in the financial year and in light of the Group's execution of its strategic milestones, its most recent trading performance and latest forecasts, and the associated improved headroom over liquidity and covenant limits.

As a result, the Directors are satisfied that the Group has adequate resources to meet its obligations as they fall due for a period of at least 12 months from the date of approving these financial statements and, for this reason, they continue to adopt the going concern basis in preparing these financial statements.

FRC review of FY20 Annual Report and Accounts

In May 2021, the Company received a letter from the Financial Reporting Council (FRC) requesting further information in three principal areas following a review of the Group's FY20 Annual Report and Accounts. The FRC requested further information in relation to deferred taxation, the cash flow statement and the presentation of alternative performance measures in the Strategic report regarding free cash flow and movements in debt.

Following provision of the information requested, the FRC closed its enquiry in July 2021. Disclosure observations made by the FRC were given full consideration and additional disclosures are included in the 2021 Annual Report and Accounts where material or relevant to do so.

One observation made by the FRC was to highlight that in the 2020 Annual Report and Accounts, loan repayments from joint ventures were incorrectly classified as a financing activity as opposed to an investing activity in the Group's consolidated cash flow statement. This has been corrected in the 2021 Annual Report and Accounts, with prior year comparatives re-presented accordingly. Further detail on this is given below.

The FRC's review was based on the FY20 Annual Report and Accounts and did not benefit from detailed knowledge of the business or an understanding of the underlying transactions entered into. It was, however, conducted by FRC staff with an understanding of the relevant legal and accounting framework. The review carried out by the FRC provides no assurance that the Annual Report and Accounts were correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements.

2020 restatements

Within the comparative information in the cash flow statement, loan repayment and return of equity from joint ventures of £9.4m have been re-presented from financing activities to investing activities. This was highlighted as part of the FRC enquiry and after a re-review of the guidance it was agreed that this should be amended. This change has no impact on the cash or net debt position and relates solely to classification within the cash flow statement.

Earnings per share has been re-presented in the comparative information as a result of the equity raise which completed on 18 June 2021, see notes 12 and 27.

Comparative information presented on a segmental basis has been re-presented to show the new reporting units, see note 3.

Basis of consolidation

(a) Subsidiaries

The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2021. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

If a business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date; any gains or losses arising from such remeasurements are recognised in profit or loss.

The Group measures goodwill at the acquisition date as:

- › The fair value of the consideration transferred; plus
- › The recognised amount of any non-controlling interests in the acquiree; plus
- › If the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- › The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the result is negative, a 'bargain purchase' gain is recognised immediately in the income statement.

Provisional fair values allocated at a reporting date are finalised within 12 months of the acquisition date.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in the income statement unless the contingent consideration is classified as equity, in which case settlement is accounted for within reserves.

1 Significant accounting policies continued

Accounting policies of subsidiaries are adjusted where necessary to ensure consistency with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

(b) Joint arrangements

A joint arrangement is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties.

The Group's interests in joint ventures are accounted for using the equity method. Under this method the Group's share of the profits less losses of joint ventures is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil, following which no further losses are recognised. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

From time to time the Group 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 Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from foreign currency transactions are reflected in the income statement.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which each entity operates (the functional currency). The consolidated financial statements are presented in GBP, which is the Group's presentation currency.

The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Trading profits or losses are translated at average rates prevailing during the accounting period. Differences on exchange arising from the retranslation of net investments in overseas subsidiary undertakings at the year-end rates are recognised in other comprehensive income. All other translation differences are reflected in the income statement.

Revenue and profit recognition

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

The general principles for revenue and profit recognition across the Group 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;

- › Contract modifications are treated as separate contracts if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the circumstances of the particular contract;
- › 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 Group will be required to refund some or all of the consideration it has received from the customer;
- › Where revenue that has been recognised is subsequently determined not to be recoverable due to the inability of a customer to meet its obligations, these amounts are charged to administrative expenses as a credit loss;
- › 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 Group 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 Group does not make an adjustment for the time value of money in the following circumstances:

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

Revenue and profit 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 Group 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.

(c) Property development

Revenue in respect of property developments is recorded on unconditional exchange of contracts on disposal of finished developments. Profit taken is subject to any amounts necessary to cover residual commitments relating to development performance.

Where developments are sold in advance of construction being completed, revenue and profit are recognised at the point of sale, reflecting the transfer of control to the customer in its current stage of completion. Thereafter, revenue for construction services provided to the customer to complete the property is recognised over time in line with the percentage of completion, consistent with the Group's accounting policy for recognition of revenue on construction contracts (see above).

Where consideration is paid in advance of the development's construction phase at a price less than market value, revenue is recognised on a discounted basis to reflect a financing component of the transaction. This revenue and forward funded interest unwinds as the construction takes place.

(d) Private Finance Initiative (PFI) service concession agreements

Revenue relating to construction or upgrade services under a service concession agreement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see above).

Operation or service revenue is recognised in the period in which the services were provided by the Group. When the Group provides more than one service in a service concession agreement, the consideration received is allocated by reference to the relative stand-alone selling prices of the services delivered.

(e) Private housing and land sales

This source of revenue relates to the Kier Living business that was disposed of in the year. The results for Kier Living are shown within discontinued operations (see note 23).

Revenue from housing sales is recognised at the fair value of the consideration received or receivable on legal completion, being the point that control is deemed to pass to the customer.

Profit is recognised on the sale of each housing plot by reference to the estimated cost of that plot based on an allocation from the expected overall cost out-turn for the development site. The principal estimation technique used by the Group in attributing profit on sites to a particular period is the preparation of forecasts of costs to complete on a site-by-site basis. Consistent review procedures are in place in respect of site forecasting.

Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts.

Where plots are sold part-way through construction (e.g. affordable housing plots acquired by a housing association), subsequent revenue is recognised over time based on the stage of completion reflecting the transfer of benefit to the customer. If it is not possible to establish an accurate allocation of cost from the overall site costs and therefore not possible to establish the stage of completion based on actual costs, external valuations are used to estimate the percentage of completion.

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 Group 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 Group 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 Group's policy is therefore to show its capitalised mobilisation costs as a non-current asset, amortised over the expected contract duration.

Warranties and rectification costs

The Group does not offer extended insurance-type warranties at an additional cost to the customer (which would represent separate performance obligations). Standard industry assurance-type warranties are provided and are accounted for as rectification cost provisions based on the estimated costs of making good any latent defects.

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. The Directors have considered the requirements of applicable accounting standards, along with additional guidance around alternative performance measures (APMs) and 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, in alignment with the Group's internal management reporting. As such, the Group is disclosing as supplementary information an 'Adjusted Profit' APM which is reconciled to statutory profit in the notes to the financial statements and is consistent with IFRS 8 segmental reporting.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

1 Significant accounting policies continued

Separate presentation of these items is intended to enhance understanding of the financial performance of the Group in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items. The Directors review segmental results under an adjusted items basis to analyse the performance of operating segments.

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.

Amortisation of acquired intangible assets and certain financing costs are also included as adjusting items on the basis of being ongoing non-cash items generated from acquisition related activity.

A full reconciliation from statutory numbers to adjusted profit measures has been presented in note 5.

The Group presents revenue including from joint venture arrangements as an alternative performance measure. The Directors believe this is a useful measure as it provides visibility over the scale of the Group's operations, particularly within its Property business where a significant proportion of developments are set up in joint ventures.

The Group also presents adjusted cash flow from operations, free cash flow and net debt as alternative performance measures. The Directors consider that these provide useful information about the Group's liquidity and debt profile.

Finance income and costs

Interest receivable and payable on bank balances is credited or charged to the income statement as incurred using the effective interest rate method. Interest receivable is presented within operating cash flows in the cash flow statement.

Borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

Borrowing costs incurred within the Group's jointly controlled entities relating to the construction of assets in PFI and PPP projects are capitalised until the relevant assets are brought into operational use.

Notional interest payable, representing the unwinding of the discount on long-term liabilities, is charged to finance costs.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax provision is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised or where other temporary differences are available.

Goodwill and other intangible assets

Goodwill arising on consolidation represents the excess of the consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Negative goodwill is recognised in the income statement immediately. On disposal of a subsidiary or jointly controlled entity, the attributable carrying amount of goodwill is included in the determination of the profit or loss on disposal.

Other intangible assets which comprise contract rights and computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to administrative expenses in the income statement on a straight-line basis over the expected useful lives of the assets, which are principally as follows:

Contract rights	Over the remaining contract life
Computer software	3–10 years

Internally generated intangible assets developed by the Group 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 research expenditure is written off in the period in which it is incurred.

Property, plant and equipment and depreciation

The cost of an acquired asset comprises the purchase price, any directly attributable costs and the estimated costs of dismantling and removing the item at the end of its life. Depreciation is based on historical or deemed cost, including expenditure that is directly attributable to the acquisition of the items, less the estimated residual value, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated to residual values in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold land and buildings	25–50 years
Leasehold buildings and improvements	Period of lease
Plant and equipment (including vehicles)	3–12 years

Leases

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 Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and

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

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

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

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

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

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

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

- › Leases of low-value items – The Group 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 Group 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 Group allocates the consideration in the contract to the lease and non-lease components based on their relative standalone 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.

The Group enters into lease agreements as a lessor with respect to its investment properties. Leases for which the Group is a lessor are classified as finance or operating leases.

Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Finance lease income is calculated with reference to the gross carrying amount of the lease receivables, except for credit-impaired financial assets for which interest income is calculated with reference to their amortised cost (i.e. after a deduction of the loss allowance).

When a contract includes both lease and non-lease components, the Group applies IFRS 15 to allocate the consideration under the contract to each component.

Investment properties

Investment properties, principally office buildings and land, are held for the purpose of earning rentals and/or for capital appreciation and are not occupied by the Group. Investment properties are measured using the fair value model. Gains and losses arising from a change in the fair value of investment properties are recognised in the income statement in the period in which they arise.

Rental income in respect of investment properties is credited to 'other income' within administrative expenses and is disclosed in note 15. Amounts recognised in the income statement in respect of investment properties are treated as adjusting items, as the investment properties have come about through vacating corporate offices following a restructure of the Group's property portfolio.

Mining assets

Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the 'coaling life' of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within finance costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset.

Where there is a subsequent change to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

1 Significant accounting policies continued

Inventories

Inventories, including land held for and in the course of development, are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Cost in certain circumstances also includes notional interest as explained in the accounting policy for finance income and costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Inventories are valued on a first in, first out (FIFO) basis.

Land inventory is recognised at the time a commitment to purchase the land is made, generally at exchange of unconditional contracts.

Property inventory, which represents all development land and work in progress, is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the income statement.

Contract assets and liabilities

When the Group 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 Group's right to consideration in exchange for goods or services that the Group has transferred to a customer.

Contract assets are reduced by appropriate allowances for expected credit losses calculated using the simplified approach (as with trade receivables).

If a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Group 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 Group'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.

Assets held for sale

Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, and the assets are available for sale in their present condition.

Share capital

The ordinary share capital of the Company is recorded as the proceeds received, net of directly attributable incremental issue costs.

Merger reserve

Where equity raises are effected through a structure which is eligible for merger relief under section 612 of the Companies Act 2006, the

Group transfers the excess of the net proceeds over the nominal value of the share capital issued to the merger reserve.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated.

Contingent liabilities

The Group discloses a contingent liability in circumstances where it has a possible obligation depending on whether some uncertain future event occurs, or has a present obligation but payment is not probable, or the amount cannot be measured reliably.

Government grants

Government grant income is recognised at the point that there is reasonable assurance that the Group will comply with the conditions attached to it, and that the grant will be received.

Employee benefits

(a) Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

The Group accounts for defined benefit obligations in accordance with IAS 19. Obligations are measured at discounted present value while plan assets are measured at fair value. The operating and financing costs of such plans are recognised separately in the income statement; current service costs are spread systematically over the lives of employees and financing costs are recognised in full in the period in which they arise. Remeasurements of the net defined pension liability, including actuarial gains and losses, are recognised immediately in other comprehensive income.

The net finance cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in finance costs in the income statement.

Where the calculations result in a surplus to the Group, the recognised asset is limited to the present value of any available future refunds from the plan or reductions in future contributions to the plan, that the Group has the unconditional right to realise.

(b) Share-based payments

Share-based payments granted but not vested are valued at the fair value of the shares at the date of grant. This affects the Sharesave, Conditional Share Award Plan and Long-Term Incentive Plan (LTIP) schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a Stochastic model. Awards that are subject to a post vesting holding period are valued using the Finnerby model.

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

Shares purchased and held in trust in connection with the Group's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group 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 Group are as follows:

(a) Trade receivables and trade payables

Given the varied activities of the Group it is not practicable to identify a common operating cycle. The Group has therefore 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 Group 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.

The Group applies the simplified approach to measurement of expected credit losses in respect of trade receivables, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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 cash flows. 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 Group 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 Group with interest accrued for any late payments.

(b) 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.

(c) 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.

(d) Private Finance Initiative (PFI) assets

Under the terms of a PFI or similar project, where the risks and rewards of ownership remain largely with the purchaser of the associated services, the Group's interest in the asset is classified as a financial asset and included at its amortised cost within investment in joint ventures.

(e) Derivative financial instruments

As permitted by IFRS 9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Critical accounting estimates and judgements

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

(a) Revenue and profit recognition

The estimation techniques used for revenue and profit recognition in respect of property development, construction contracts and services contracts require forecasts to be made of the outcome of long-term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

There are three contracts (2020: five contracts) that the Group considers require significant accounting estimates and, as at 30 June 2021, the Group has included estimated recoveries from customers with a combined value of £12.3m (2020: £16.2m). These recoveries are recognised on the basis that they are considered highly probable not to reverse, however, there is clearly a range of factors affecting potential outcomes once these contracts are finalised and the Group estimates the values on these contracts could collectively range from an upside of £12.0m (2020: £13.5m) to a downside, including the risk of counterclaims being levied against the Group, of £14.2m (2020: £16.0m).

Over 500 construction contracts (2020: over 500) were income generating during the year within the Group's Construction and Infrastructure Services operating divisions. Of these, one (2020: one) individually had a material impact on operating profit. This contract is a significant ongoing rebuild project that is covered by a fixed insurance recovery, for which there are no balances with customers however there is risk associated with the future costs of rebuild.

1 Significant accounting policies continued

The key judgements and estimates relating to determining the revenue and profit of material contracts are:

- › costs to complete;
- › achieving the planned build programme;
- › recoverability of claims and variations in accordance with IFRS 15; and
- › each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract, determined by a combination of management judgement and external professional assistance, backed up by judgements papers for the contracts that have a material impact on the income statement.

The level of estimation uncertainty in the Group's construction businesses is reduced by the effect of its substantial portfolio and significant experience of the division's management team. The level of estimation is further reduced by the combination of the modest scale and short contract durations of the Group's projects. Nevertheless, the profit recognition in the Construction business is a key estimate, due to the inherent uncertainties in any construction project over revenues and costs.

The level of estimation and uncertainty differs between the Group's construction businesses, particularly between Regional Building, Major Projects – Building and Infrastructure. Regional Building operates around 400 sites (2020: 400) each year with an average project size of £11.6m (2020: £11.8m) and with average revenue in the year of £3.9m (2020: £4.0m). These projects typically operate under framework contracts where costs are known with a greater degree of certainty. Infrastructure manages around 30 sites with projects ranging from a relatively small number of higher value major Infrastructure civil engineering projects to a larger number of more modest minor signalling upgrades and replacements.

The major infrastructure civil engineering projects typically include Design and Build, Construct only and Target Cost contracts. The nature and length of these contracts means there can be a greater level of estimation and uncertainty. The blended portfolio risk of the overall construction businesses is mitigated by the relative sizes of the Regional Building, Major Projects – Building and Infrastructure businesses.

Construction revenue for the year is £1.8bn (2020: £1.8bn) with an associated adjusted operating profit margin of 3.2% (2020: 2.4%). The historic profit margins in the construction businesses typically range from 2.0% to 3.2%. A potential downside risk in margin would be 1.2% (2020: 0.6%). Given the short-term average duration (approximately 12 months) of the construction portfolio, the impact of such a decrease in margin across projects in delivery at the year end would be a decrease in operating profit of £21.2m (2020: £11.0m).

(b) Lifecycle assets

The Group has a number of ongoing contracts where lifecycle funds are established to meet contractual obligations. The key sensitivity in the calculation is the percentage of the funds build-up required for future maintenance. A reasonably likely change would be an increase or decrease of 10% in the percentage of funds build-up required. Such a change would result in a profit impact of approximately £1m in any one year.

(c) Defined benefit pension scheme valuations

In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

- › Expected return on plan assets;
- › Inflation rate;
- › Mortality;
- › Discount rate; and
- › Salary and pension increases.

Details of the assumptions used and sensitivity to changes in these assumptions are included in note 9.

(d) Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of cash generating units (CGUs) to which the goodwill has been allocated. The value in use calculation requires an estimate to be made of the timing and amount of future cash flows expected to arise from the CGU and the application of a suitable discount rate in order to calculate the net present value. Cash flow forecasts for the next three years are based on the Group's budgets and forecasts. Other key inputs in assessing each CGU are revenue growth, operating margin, discount rate and terminal growth rate. The assumptions are set out in note 13 together with an assessment of the impact of reasonably possible sensitivities.

In undertaking the assessment, the potential net impact of climate change on the forecasts has been considered. At present, it has been concluded that it will not be significant.

(e) Joint ventures

In accordance with IFRS 11 para 7, joint ventures are identified where the control of an arrangement is shared and decisions around activities require unanimous consent if the action significantly affects the investee's return. The key judgement involved in determining joint control is that the board structure and the mechanisms, including deadlock mechanisms, in the reserved matters do not give any one party majority control over relevant activities, regardless of the economic split between partners.

(f) Adjusting items

Adjusting items are items of financial performance which the Group believes should be separately presented to assist in understanding the financial performance achieved by the Group in accordance with the accounting policy set out on pages 139 to 140. Determining whether an item is classified as an adjusting item requires judgement.

Total adjusting items of £59.8m were charged to the income statement in respect of continuing operations for the year ended 30 June 2021 (2020: £242.2m). A further amount of £24.8m (2020: £88.6m) was charged in respect of discontinued operations. The items that comprise this are set out in note 5 together with an explanation of their nature and consideration points as to why the Directors have treated these as adjusting items.

(g) Property leases

The Group continues to rationalise its property portfolio and has exited its leased corporate office in Foley Street, London. The property is now being sublet for the remaining period of the lease and the associated right-of-use asset is classified as an investment property. Given the length of the underlying leases and the uncertainty in the property market, in calculating the fair value of the right-of-use asset judgement has been exercised in the following areas:

- › Length of time to fully sublet the property – assumption is within 12 months;
- › Sub-rental amounts – assumption is based on management's current best estimate of market rental values; and
- › Discount rate – assumption reflects the specific risks of the investment property.

(h) Taxation

The Group is predominantly UK based and all entities are UK resident for tax purposes and therefore subject to UK tax regulations.

Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised. In particular, the Group has exercised judgement in recognising a deferred tax asset of £108.6m (2020: £94.6m) in respect of tax losses.

The critical judgements in assessing the recoverability of the deferred tax asset relate to the taxable profit forecasts. These forecasts are based on the same Board-approved information used to support the going concern and goodwill impairment assessments. The critical judgements related to these forecasts are the same as those described in the goodwill section of this note. In assessing the recoverability, the Group has considered various sensitivities regarding future profitability, those of which are also disclosed within the going concern section of this note.

The basis for recognising this tax asset is set out in note 18 together with the period in which it is expected to be utilised.

(i) Land and property valuations

The recoverability of property development work in progress is an area which requires significant judgement due to the ongoing volatility in property valuations due to COVID-19. An assessment of the net realisable value of inventory is carried out at each balance sheet date and is dependent upon the Group's estimate of forecast selling prices and build/development costs (by reference to current prices), which may require significant judgement. Where applicable, third-party valuations are used to support the position as at the balance sheet date. In valuing work in progress at the lower of cost and net realisable value the Group has already recognised any expected downside, and any upside is contingent on the Group's continued development of the projects as it is not in the business of selling partly developed sites. At 30 June 2021, the value of land and work in progress held for development was £39.1m (2020: £45.2m).

2 Revenue

Revenue is entirely derived from contracts with customers.

Infrastructure Services

The Group derives revenue from capital infrastructure projects as well as the maintenance of infrastructure assets across various sectors including highways, rail, water, gas and domestic fibre installation.

Capital projects can range from the construction of power stations, roads, bridges and tunnels over a period of several years (e.g. Hinkley Point C, Mersey Gateway bridge, Crossrail and HS2), to small schemes completed in a matter of days. Revenue is recognised over time as the construction services are rendered to the customer. Each capital project is typically a single performance obligation.

The Group also provides maintenance services for the UK road, rail and utilities infrastructure through both routine, preventative maintenance as well as reactive repairs. These services are generally delivered under framework contracts of between five to eight years, however, individual performance obligations under the framework are normally determined on an annual, monthly or ad hoc basis. Revenue is recognised over time as the maintenance services are rendered to the customer.

Where multiple services are supplied under a single contract they are treated as separate performance obligations and revenue is recognised separately as each performance obligation is satisfied.

Services are normally invoiced monthly in arrears under normal commercial credit terms. Under some contracts, amounts are held back as a retention for periods that can exceed 12 months. However, as the purpose of the retentions is to ensure that the performance obligations on the contract are carried out to a satisfactory standard, the Group does not deem there to be a significant financing component in the timing of the cash flows on these amounts.

The Group's obligation to make good faulty workmanship under standard industry warranty terms is recognised as a provision (see note 26).

Construction

The Group undertakes over 400 building projects each year, providing construction services in the private, education and health sectors and on public sector frameworks. Projects range from minor extensions costing less than £0.5m to the construction of major strategic assets costing hundreds of millions of pounds. The construction of a building, including any associated design work, is normally accounted for as a single performance obligation as the services provided are normally highly interrelated. Revenue is recognised over time as the performance obligation is satisfied.

Invoices are typically raised monthly, based on valuations of the work completed, and have normal commercial payment terms. It is common in the construction industry for an amount to be held back as a retention for periods that can exceed 12 months. However, as the purpose of the retentions is to ensure that the performance obligations on the contract are carried out to a satisfactory standard, the Group does not deem there to be a significant financing component in the timing of the cash flows on these amounts.

2 Revenue continued

Whilst the bulk of consideration associated with construction contracts is fixed, variable consideration elements can exist (milestone bonuses, gain share, event claims, etc.). The Group only recognises revenue for these amounts if they are highly probable not to reverse.

Liquidated and ascertained damages (LADs) clauses are often present in construction contracts. Where it is anticipated that a LADs clause will be triggered (e.g. through overrunning works), revenue is constrained to reflect the expected amount of the deduction.

Modifications to the scope of construction work are agreed in principle with the customer before additional work is carried out. However, the price is not always determined until the final account stage. In these circumstances the Group treats the revenue associated with the modification as variable consideration and only recognises amounts that are highly probable not to reverse.

The Group's obligation to repair building faults under standard industry warranty terms is recognised as a provision (see note 26).

For the Group's construction activities in the Middle East, in some circumstances, customers pay upfront amounts to protect the Group against payment default. Payments on account are not normally made more than 12 months in advance of the service delivery.

The Group also provides maintenance services to local authorities and private landlords with large housing portfolios. Revenue for maintenance services is recognised over time as the services are rendered. Services are either invoiced monthly or shortly after completion of individual performance obligations. Normal commercial payment terms apply.

The Group also provides facilities management and maintenance services for commercial property owners, and waste and recycling collection services for local authority and commercial customers.

Facilities management and maintenance services revenue is recognised over time as the services are rendered. Invoices for services rendered are typically raised monthly. Typically, normal commercial payment terms apply, with the exception of the PFI lifecycle contracts, as noted below.

The Group has a number of long-term PFI lifecycle contracts to maintain properties over periods of 25-30 years. A fund is established at the start of the contract and amounts are drawn down by the Group as maintenance work is performed. The Group is also entitled to share in any surplus left in the fund at the end of the contract. Revenue is recognised over time to reflect the rendering of the service including an assessment of the appropriate proportion of the likely surplus in the fund, subject to being highly probable not to reverse. As the surplus amount will not be paid until the end of the contracts, the contract asset associated with the surplus recognised to date is shown as a non-current asset in the balance sheet. The surplus is payable at the end of the contract to ensure that the property is maintained to a satisfactory standard over the full term of the contract and to promote efficiencies. As such the Group does not deem there to be a significant financing component.

Environmental services contracts with local authorities, for domestic waste and recycle collections and operation of household waste and recycling centre, have a typical duration of between 7 and 10 years. Contracts with commercial customers are typically for 12 months. Revenue from environmental services contracts is recognised over time as the services are performed. Invoices are raised monthly in arrears and normal commercial payment terms apply.

Property

The Group undertakes property development on its own sites as well as a service for customers.

Revenue in respect of property developments is recorded on unconditional exchange of contracts. In most cases payment is received on legal completion.

Where developments are sold in advance of construction being completed, revenue and profit are recognised at the point of sale, reflecting the transfer of control to the customer in its current stage of completion. Thereafter, revenue for construction services provided to the customer to complete the property development is recognised over time as the construction services are rendered. Construction services are normally invoiced monthly based on valuations under normal commercial payment terms.

Occasionally the Group will sell land that it has previously acquired for potential commercial property or housing developments. Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts.

Transaction price allocated to remaining performance obligations

The following table includes revenue expected to be recognised in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

At 30 June 2021

	2022 £m	2023 £m	2024 onwards £m
Infrastructure Services	617.2	565.7	681.2
Construction	847.4	286.5	152.2
Property	13.1	–	–
Total transaction price allocated to remaining performance obligations	1,477.7	852.2	833.4

At 30 June 2020¹

	2021 £m	2022 £m	2023 onwards £m
Infrastructure Services	489.4	430.4	991.0
Construction	632.9	114.7	106.4
Property	55.9	5.9	–
Total transaction price allocated to remaining performance obligations	1,178.2	551.0	1,097.4

¹ Prior year comparative information re-presented to show the new reporting segments, see note 3.

The above transaction prices only include variable consideration if it is highly probable not to reverse and exclude any estimate of revenue from framework contracts for which a firm commitment or order has not been received at the reporting date.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

3 Segmental reporting

As part of the Group's continued focus on restructuring and streamlining operations, and in line with the Group's strategy to simplify the Group's portfolio, a review of the Facilities Management, Housing Maintenance, Design and Business Services, and Environmental Services businesses was conducted during the year to 30 June 2021. Following internal restructuring driven by the potential synergy benefits available, these businesses now report into the Construction Leadership Team. As part of this process, the information that is used to manage the Construction business, and what is being reported to the Group's Chief Operating Decision Maker, has been realigned to include these businesses.

The Directors have therefore concluded that, from 1 July 2020, the results of the Facilities Management, Housing Maintenance, Design and Business Services, and Environmental Services businesses should be reported within the Construction segment for external reporting purposes, still named Construction. The Other segment now only consists of the Property division and has been renamed Property. The prior year segmental analysis has been restated to reflect these changes. 'Corporate' includes unrecovered overheads and the charge for defined benefit pension schemes.

The change in reporting structure has had no impact on the Group's previously reported cash generating units (CGUs). The carrying value of the Group's goodwill as at 1 July 2020 to each of the Group's new CGUs is as follows:

	£m
Infrastructure Services	516.3
Construction	20.4
Property	–
	536.7

Segment information is based on the information provided to the Chief Executive, together with the Board, who is the Chief Operating Decision Maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the Operational Review on pages 16 to 21.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 136 to 145. The Group evaluates segmental information on the basis of profit or loss from operations before adjusting items (see note 5), interest and tax expense. The segmental results that are reported to the Chief Executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

3 Segmental reporting continued

Year to 30 June 2021

	Infrastructure Services £m	Construction £m	Property £m	Corporate £m	Group £m
Continuing operations					
Revenue¹					
Group and share of joint ventures	1,421.6	1,769.1	133.6	4.2	3,328.5
Less share of joint ventures	–	(1.5)	(66.0)	–	(67.5)
Group revenue	1,421.6	1,767.6	67.6	4.2	3,261.0
Timing of revenue¹					
Products and services transferred at a point in time	5.2	9.2	59.0	–	73.4
Products and services transferred over time	1,416.4	1,759.9	74.6	4.2	3,255.1
Group and share of joint ventures	1,421.6	1,769.1	133.6	4.2	3,328.5
Loss for the year					
Operating profit/(loss) before adjusting items ⁵	65.3	56.7	5.7	(27.4)	100.3
Adjusting items ⁵	(23.9)	(16.0)	(3.4)	(13.3)	(56.6)
Profit/(loss) from operations	41.4	40.7	2.3	(40.7)	43.7
Net finance costs ²	–	(3.9)	(10.8)	(23.4)	(38.1)
Profit/(loss) before tax from continuing operations	41.4	36.8	(8.5)	(64.1)	5.6
Taxation					17.4
Profit for the year from continuing operations					23.0
Loss for the year from discontinued operations					(24.6)
Loss for the year					(1.6)
Balance sheet					
Operating assets ³	945.3	459.6	167.0	304.5	1,876.4
Operating liabilities ³	(457.0)	(749.0)	(24.0)	(215.5)	(1,445.5)
Net operating assets/(liabilities)³	488.3	(289.4)	143.0	89.0	430.9
Cash, cash equivalents and borrowings	346.7	480.7	(126.4)	(710.3)	(9.3)
Net financial assets	–	–	–	13.4	13.4
Net assets/(liabilities)	835.0	191.3	16.6	(607.9)	435.0
Other information					
Inter-segmental revenue	20.1	0.3	–	46.7	67.1
Capital expenditure on property, plant, equipment and intangible assets	1.7	0.5	–	4.2	6.4
Depreciation of property, plant and equipment	(1.2)	(0.8)	–	(4.4)	(6.4)
Amortisation of computer software	(0.4)	(1.3)	–	(6.6)	(8.3)

Year to 30 June 2020⁴

	Infrastructure Services £m	Construction £m	Property £m	Corporate £m	Group £m
Continuing operations					
Revenue¹					
Group and share of joint ventures	1,506.2	1,834.7	123.8	10.9	3,475.6
Less share of joint ventures	–	(7.4)	(45.7)	–	(53.1)
Group revenue	1,506.2	1,827.3	78.1	10.9	3,422.5
Timing of revenue¹					
Products and services transferred at a point in time	3.9	8.5	44.5	–	56.9
Products and services transferred over time	1,502.3	1,826.2	79.3	10.9	3,418.7
Group and share of joint ventures	1,506.2	1,834.7	123.8	10.9	3,475.6
Loss for the year					
Operating profit/(loss) before adjusting items ⁵	31.3	43.6	(3.2)	(30.3)	41.4
Adjusting items ⁵	(21.9)	(95.9)	(18.5)	(100.7)	(237.0)
Profit/(loss) from operations	9.4	(52.3)	(21.7)	(131.0)	(195.6)
Net finance costs ²	(1.5)	(8.4)	(3.8)	(16.0)	(29.7)
Profit/(loss) before tax from continuing operations	7.9	(60.7)	(25.5)	(147.0)	(225.3)
Taxation					53.4
Loss for the year from continuing operations					(171.9)
Loss for the year from discontinued operations					(101.4)
Loss for the year					(273.3)
Balance sheet					
Operating assets ³	828.2	500.6	186.1	337.0	1,851.9
Operating liabilities ³	(385.2)	(696.9)	(24.4)	(312.1)	(1,418.6)
Net operating assets/(liabilities)³	443.0	(196.3)	161.7	24.9	433.3
Cash, cash equivalents and borrowings	346.1	370.6	(145.5)	(908.7)	(337.5)
Net financial assets	–	–	–	30.0	30.0
Net assets/(liabilities) excluding net assets held for sale	789.1	174.3	16.2	(853.8)	125.8
Net assets held for sale					115.0
Net assets					240.8
Other information					
Inter-segmental revenue	16.4	0.2	–	43.6	60.2
Capital expenditure on property, plant, equipment and intangible assets	1.2	3.7	–	2.9	7.8
Depreciation of property, plant and equipment	(1.0)	(0.8)	–	(5.8)	(7.6)
Amortisation of computer software	(0.3)	–	–	(10.7)	(11.0)

¹ Revenue is stated after the exclusion of inter-segmental revenue. Over 90% of the Group's revenue is derived from UK-based customers. 12% of the Group's revenue was received from National Highways (2020: 17%).

² Interest was (charged)/credited to the divisions at a notional rate of 4.0%.

³ Net operating assets/(liabilities) represent assets excluding cash, cash equivalents, bank overdrafts, borrowings, financial assets and liabilities, assets and liabilities classified as held for sale and interest-bearing inter-company loans.

⁴ Prior year comparative information re-presented to show the new reporting segments.

⁵ See notes 1 and 5 for adjusting items.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

4 Profit/(loss) from operations

Profit/(loss) from operations is stated after charging/(crediting):

	Notes	2021 £m	2020 £m
Auditors' remuneration:			
Fees payable for the audit of the parent company and consolidated financial statements		1.8	1.9
Fees payable to the Company's auditor for other services ¹ :			
Audit of the Company's subsidiaries, pursuant to legislation		1.9	2.0
Audit related assurance services		0.5	0.3
Other assurance services ²		–	0.7
Amortisation of intangible assets	13	29.3	34.7
Impairment reversal of intangible assets	13	(2.4)	–
Loss on disposal of computer software	13	0.5	5.0
Depreciation of property, plant and equipment	14	6.4	7.6
(Profit)/loss on sale of property, plant and equipment		(1.0)	0.1
Impairment of property, plant and equipment	14	–	5.4
Depreciation of right-of-use assets	24	33.7	35.8
Impairment of right-of-use assets	24	–	10.2
Fair value adjustment to investment properties	15	0.3	0.6
Amortisation of capitalised mobilisation cost	17	1.6	1.5
Impairment of capitalised mobilisation cost	17	–	0.7
Expenses relating to short-term leases and leases of low-value assets	24	86.1	71.4
Net Research and Development Expenditure Credit receivable ³		(12.0)	(9.4)
Net loss from operations related to mining		0.4	2.3

¹ The auditors' remuneration relates to amounts paid to PricewaterhouseCoopers LLP (PwC). A summary of other services provided by PwC during the year is provided on page 92. Included in the 2021 audit fees are additional fees of £0.9m for prior year work (2020: £1.3m).

² In addition to £0.5m of audit related assurance services, £0.8m of non-audit services related to the disposal of Kier Living were incurred and are included in the results from discontinued operations, and a further £0.7m of costs associated with the equity raise have been capitalised against the merger reserve, as set out in note 27.

³ Includes £13.3m of receipts (2020: £10.2m) and £1.3m of fees payable to consultants (2020: £0.8m).

5 Adjusting items

The Group's policy in respect of adjusting items is described in note 1. These items are explained in detail below:

	Operating profit/(loss)		Profit/(loss) before tax	
	2021 £m	2020 £m	2021 £m	2020 £m
Reported profit/(loss) from continuing operations	43.7	(195.6)	5.6	(225.3)
Amortisation of acquired intangible assets	21.0	23.7	21.0	23.7
Costs associated with previous acquisitions	–	5.0	–	5.0
Restructuring and related charges	31.6	156.1	31.6	156.1
Preparation for business divestment or closure	0.5	33.6	0.5	33.6
Other	3.5	18.6	6.7	23.8
Adjusted profit from continuing operations	100.3	41.4	65.4	16.9

(a) Amortisation of acquired intangible assets

	Notes	2021 £m	2020 £m
Amortisation of acquired intangible assets	13	(21.0)	(23.7)

(b) Costs associated with previous acquisitions

		2021 £m	2020 £m
Integration costs relating to the McNicholas acquisition ¹		–	(8.5)
McNicholas acquired contract settlement ²		–	3.5
Total charge before tax		–	(5.0)

¹ Costs incurred in the prior year to integrate the McNicholas acquisition into the Utilities business including significant double-running of people and lease costs. These were considered to be adjusting items on the basis of their size, the fact that they related to a major acquisition and that these were non-recurring costs. These are no longer material for separate disclosure.

² Revenue received in settlement of a contract acquired with McNicholas.

(c) Restructuring and related charges

The Group has incurred significant restructuring charges relating to costs of multi-year organisational change associated with the Group's cost saving programmes and the Group's strategic review programme announced following the appointment of Andrew Davies as CEO in 2019. These are treated as adjusting items on the basis of their size and the fact that they relate to significant changes to the Group's activities, property portfolio and workforce.

	Notes	2021 £m	2020 £m
Restructure of Regional Southern Build business ¹		(13.6)	(61.5)
Redundancy costs ²	8	(5.4)	(29.5)
Professional adviser fees and other costs incurred implementing non-people initiatives ³		(11.9)	(34.2)
Impairments and other costs relating to leased properties ⁴		(0.7)	(14.4)
Costs in preparation for outsourcing arrangements ⁵		–	(11.1)
Property impairment ⁶		–	(5.4)
Total charge before tax		(31.6)	(156.1)

¹ The Group has continued its strategic restructuring of its Regional Southern Build business, which has included the closure of offices, a down-sizing of personnel and the withdrawal/early settlement of certain contract positions. As a result of these ongoing restructuring activities a net cost of £13.6m has been charged in the current year. This relates predominantly to charges in respect of the recoverability of assets and increased project costs due to settlements and delays, which have been directly impacted by this restructuring programme. This represents an extension of the prior year charges, which similarly included costs relating to the restructuring of management, closure of offices and closure of certain sectors, and the impact that COVID-19 had on market conditions.

² Costs in respect of roles made redundant as a result of the ongoing implementation of cost saving programmes and from strategic decisions taken to reduce headcount in a number of the Group's principal operating divisions following the continued implementation of the strategic review.

³ The Group incurred various costs in respect of the restructuring activities during the year. In particular, £8.3m of adviser fees relating to the equity raise and debt refinancing were expensed to the income statement on the basis that they were not directly attributable to either transaction. In addition to the fees charged to adjusting items, £22.7m has been charged to equity and £2.6m offset against debt. The remaining adjusting costs were incurred implementing non-people initiatives.

⁴ The Group has incurred impairment and other charges on a corporate office lease of £0.7m (2020: £16.8m), which is being exited as part of the cost saving programme. These further charges are as a result of the delayed subletting of the property. In the prior year another corporate office lease that was previously impaired was brought back into use by the Group, which resulted in a net credit to adjusting items of £2.4m.

⁵ In the prior year the Group outsourced its Fleet and IT services, incurring £8.3m of costs. This included one-off set up costs and dual-running costs.

⁶ As part of its restructuring programme the Group closed its head office in the prior year, which is now held as an investment property. As a result, an impairment charge of £5.4m was recognised.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

5 Adjusting items continued

(d) Costs incurred in preparation for business divestment or closure

The Group has incurred various charges driven by the change in strategic direction of the Group and the decision to exit certain divisions deemed non-core to its ongoing operations. Most of these charges are non-cash and are treated as adjusting items on the basis that they relate to a major restructuring of the Group following the strategic review that took place in 2019.

	2021 £m	2020 £m
Business closure and sales costs ¹	(3.5)	(32.0)
Fair value reversal of assets held for sale	3.0	–
Impairment of ERP computer software ²	–	(4.7)
Reversal of impairment of ERP computer software ²	–	3.1
Total charge before tax	(0.5)	(33.6)

¹ Following the announcement of the Group's intention to exit parts of the Group, a number of charges have been recognised. These primarily consist of the Group's share of net losses on disposal of two sites within the Property division (£2.2m). The prior year charge includes costs of £14.8m in Property, £1.6m in Facilities Management and £2.1m in Kier Business Services in relation to closure activities as well as adviser fees of £7.8m.

² In the prior year a cost of £4.7m was written-off due to software functionality which was no longer to be utilised within the Group. Software previously impaired is instead being utilised and so this element of impairment was reversed.

(e) Other adjusting items

Other adjusting items are analysed below:

	Notes	2021 £m	2020 £m
Net financing costs ¹		(3.2)	(5.2)
Legal compliance ²		(3.0)	(7.6)
GMP Pension charge	9	(0.5)	–
Central charges and other items ³		–	(8.9)
Procurement charge ⁴		–	(2.1)
Total charge before tax		(6.7)	(23.8)

¹ Net financing costs relate to IFRS 16 interest charges on vacated properties (£2.4m) and the write off of unamortised debt arrangement fees following the current year refinancing (£0.8m). The prior year charge included the discount unwinding of acquired intangible assets and the recycling of foreign exchange from the translation reserve in respect of the Caribbean operations.

² The Group has incurred £3.0m (2020: £4.2m) of costs in complying with new fire compliance regulations. The remaining charge in the prior year related to incidents that occurred out of period but were notified to the Group within the year and so were treated as adjusting items.

³ In the prior year central charges and other items included a number of write offs that were recognised following a detailed review of certain carrying values. These were not considered to be part of the underlying performance of the business and so were highlighted as adjusting items.

⁴ The procurement charge in the prior year related to the write off of certain aged receivables, driven by a management review of contractual terms.

(f) Taxation

Adjusting items in respect of taxation are analysed below:

	2021 £m	2020 £m
Deferred tax credit as a result of the change in tax rate ¹	25.5	–
Tax impact of adjusting items ²	12.2	45.5
Other tax charges ³	(6.0)	–
Total tax credit	31.7	45.5

¹ The change in tax rate from 19% to 25% has led to a significant deferred tax credit in the income statement. This is a one-off event that is out of the Group's control and so is considered to be an adjusting item.

² The tax impact of the adjusting items charged to continuing operations has also been included as an adjusting item.

³ Other tax charges primarily consist of the write off of losses in legal entities which have ceased to trade or are going to be wound up and therefore can no longer be used within the Group.

(g) Discontinued operations

The Group disposed of Kier Living in May 2021. Adjusting items within discontinued operations in relation to this disposal are analysed below:

	Notes	2021 £m	2020 £m
Loss on disposal of Kier Living	33	(12.1)	–
Fair value adjustment of Kier Living		–	(51.6)
Closure costs relating to non-core businesses ¹		(1.0)	(29.0)
Charges in relation to the Eastern region ²		(6.5)	–
Other disposal related costs ³		(5.2)	–
Rationalisation costs		–	(2.6)
Inventory write-downs		–	(5.4)
Total charge before tax		(24.8)	(88.6)
Tax on adjusting items (discontinued)		0.5	–
Total charge after tax		(24.3)	(88.6)

¹ Costs incurred in respect of Living's decision to exit the affordable housing market as well as the Welsh and Northern regions. During the year some additional cost was recognised in respect of the Welsh region in preparing the business for disposal.

² In preparing the Kier Living business for disposal, the Group identified £6.5m of historic costs within a Kier Living joint venture that had built up in prior periods within work in progress and that were considered irrecoverable. These were written off in arriving at the loss from discontinued operations in the year.

³ Other disposal related costs include management incentives and impairment charges as a result of the disposal of Kier Living.

(h) Adjusted cash flow

	2021 £m	2020 £m
Reported cash inflow/(outflow) from operating activities	26.8	(113.2)
Cash outflow from operating activities (adjusting items)	72.1	93.5
Adjusted cash inflow/(outflow) from operating activities	98.9	(19.7)

6 COVID-19

The Group has continued to deal with the impacts of COVID-19 throughout the period. In the prior year, the Group took a number of decisive actions as an immediate response to the pandemic in order for the Group to continue to trade. In the current year, some of these measures are now considered business as usual, such as social distancing requirements, and many have been priced into customer contracts. In addition, the restrictions on the industry in the current year have been less severe than in FY20 and the Group has continued to trade through the periods of lockdown.

As a result, the net impact on the income statement for the year is not material (2020: costs of £45.3m).

The Group has been eligible to receive Government grants in the form of the Coronavirus Job Retention Scheme (CJRS), a scheme put in place to help businesses through the ongoing COVID-19 situation. No claims were made in the current year. See note 8.

In the prior year, the Group took advantage of the ability to defer certain HMRC payments. The majority of these have been repaid in the current financial year. See note 25.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

7 Finance income and costs

	2021 £m	2020 £m
Finance income		
Interest receivable on bank deposits	–	0.3
Interest receivable on loans to related parties ¹	3.7	6.4
	3.7	6.7
Finance costs		
Bank interest	(26.0)	(23.6)
Forward funding interest ²	(8.8)	(1.3)
Interest payable on leases	(6.7)	(7.2)
Discount unwind ³	(1.1)	(1.7)
Net interest on net defined benefit obligation	0.9	0.7
Recycling of translation reserve	(0.1)	(3.3)
Foreign exchange gains/(losses) on foreign denominated borrowings ⁴	15.0	(2.3)
Fair value (losses)/gains on cash flow hedges recycled from other comprehensive income	(15.0)	2.3
	(41.8)	(36.4)
Net finance costs	(38.1)	(29.7)

¹ Includes £2.3m (2020: £5.6m) receivable from discontinued operations. The Group disposed of Kier Living in May 2021. No further amounts will be received.

² The forward funding interest costs of £8.8m in the year to 30 June 2021 reflect an alignment of the accounting treatment across all forward funding development contracts. The charge of £8.8m includes £3.9m that represents a cumulative catch up of interest costs that would have been recognised in previous reporting periods if the Group had always applied this accounting treatment to all applicable contracts. An offsetting credit is included within revenue, with a corresponding impact on the Group's operating profit. There is no impact on the statutory profit for the year from continuing operations.

³ Unwind of discount in respect of acquired intangible assets.

⁴ Foreign exchange gains/(losses) arise from movements in cross-currency swaps which hedge the currency risk on foreign denominated borrowings, see note 30.

8 Information relating to Directors and employees

	Notes	2021 No.	2020 No.
Monthly average number of people employed during the year including Executive Directors by geographical location was:			
United Kingdom		10,742	13,584
Rest of world		968	1,585
		11,710	15,169
Monthly average number of people employed during the year including Executive Directors by segment was:			
Infrastructure Services		5,847	6,687
Construction		4,879	7,186
Property		58	69
Corporate		518	644
Discontinued operations		408	583
		11,710	15,169
		£m	£m
Group staff costs by geographical location are as follows:			
United Kingdom		589.6	686.5
Rest of world		11.5	20.6
		601.1	707.1
Group staff costs by segment are as follows:			
Infrastructure Services		292.9	311.6
Construction		233.0	304.9
Property		7.0	7.8
Corporate		40.7	50.1
Discontinued operations		27.5	32.7
		601.1	707.1
Comprising:			
Wages and salaries		520.7	618.6
Social security costs		49.4	56.1
Defined benefit pension scheme net credit to the income statement	9	(0.2)	(0.5)
Contributions to defined contribution pension schemes	9	24.2	27.5
Share-based payments charge	28	7.0	5.4
		601.1	707.1

The amounts disclosed above are in relation to the entirety of the Group's Directors and employees, including those employed by the parts of the business classified as discontinued operations.

Information relating to Directors' emoluments, pension entitlements, share options and LTIP interests appears in the Directors' remuneration report on pages 98 to 117. Redundancy costs incurred during the year of £5.4m (2020: £29.5m) have been classed as an adjusting item, see note 5, and are included in the disclosures above.

The Group was eligible to receive Government grants in the form of the Coronavirus Job Retention Scheme (CJRS), a scheme put in place to help businesses through the ongoing COVID-19 situation. Under the CJRS, grant income may be claimed in respect of certain costs to the Group of furloughed employees. In FY20, the Group claimed £9.0m through this scheme. No claims were made in the current year. The CJRS income reflects the costs incurred that are eligible to be included in CJRS grant claims to the extent the Group considers there to be reasonable certainty that the grant will be received. The income was allocated across cost of sales and administrative expenses in the income statement to reduce the associated costs.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

9 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as described below.

For the defined benefit schemes, the assets of all schemes are held in trust separate from the assets of the Group. The Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers. The schemes are established under UK trust law and have a corporate trustee that is required to run the schemes in accordance with the schemes' Trust Deed and Rules and to comply with all relevant legislation. Responsibility for the governance of the schemes lies with the Trustees.

The Group has agreed deficit recovery plans with the trustees of each of its defined benefit schemes which constitute minimum funding requirements for the purposes of IFRIC 14. These minimum funding requirements do not give rise to any additional liabilities on the Group's balance sheet as the Group has determined that it has a right to benefit from any surplus created by overpaid contributions, through either a reduction in future contributions or refunds of the surpluses on winding up of the schemes. Details of the contributions agreed for each of the schemes are provided in the individual scheme information sections below.

The pension obligations of the Group are valued separately for accounting and funding purposes. The accounting valuations under IAS 19 require 'best estimate' assumptions to be used whereas the funding valuations use more prudent assumptions. A further difference arises from the differing dates of the valuations. The accounting pension deficit or surplus is calculated at the balance sheet date (30 June) each year, whereas the actuarial valuations are carried out on a triennial basis at 31 March, or in the case of one scheme, 31 December. The differing bases and timings of the valuations can result in materially different pension deficit amounts. The date of the latest triennial funding valuation for each scheme is noted in the individual scheme information sections below.

On 26 October 2018, the High Court ruled in the Lloyds Banking Group case that pension schemes must equalise Guaranteed Minimum Pensions (GMP) between male and female members. As a result of this ruling, a past service cost in respect of GMP equalisation was charged to the income statement in the year ended 30 June 2019. A further ruling by the High Court on 20 November 2020, required that schemes would also need to equalise the GMP of any ex-members that had transferred their pension out of the scheme since 17 May 1990. As a result of this further ruling, the Group has made an additional allowance for GMP equalisation and included a past service charge of £0.5m in the year which has been treated as an adjusting item, due to its one-off nature.

The Group incurred fees totalling £4.1m (2020: £4.0m) in respect of the running and administration of the defined benefit schemes.

Kier Group scheme

This is the principal scheme and includes a defined benefit section and a defined contribution section. The defined benefit section of the scheme was closed to new entrants on 1 January 2002; existing members continued to accrue benefits for service until the scheme was closed to future accrual on 28 February 2015.

The most recent triennial valuation of the Kier Group scheme was carried out by the trustees' independent actuaries as at 31 March 2019. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit.

The past service deficit contributions paid during the year totalled £13.9m (2020: £12.4m), including an additional payment of £0.5m made in respect of the proceeds received from the sale of Kier Living. On 18 September 2020, the Group agreed a revised deficit recovery plan with the scheme's trustees. Under the new agreement, the previously agreed one-off lump sum payment that was due to be paid in the year ended 30 June 2021 was no longer payable. Based on the agreed payment plan, the Group expects to make the following contributions over the next five years:

	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m
Deficit contributions	0.5	0.5	0.5	0.5	0.5

In addition to the above contributions, the trustees and the Group have agreed that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets. The Group has also agreed to meet the scheme's expenses including the Pension Protection Fund levy.

As at 30 June 2021, the scheme had 2,263 deferred members (2020: 2,441), and 2,855 retirees (2020: 2,836).

The IAS 19 accounting valuation of the Kier Group scheme at 30 June 2021 indicated that the scheme's assets exceeded its liabilities. The Group has recognised the surplus as a retirement benefit pension asset on its balance sheet under IAS 19 and IFRIC 14, as the Group has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surplus on winding up of the scheme.

Other defined benefit schemes

Acquired with the May Gurney Group

The May Gurney defined benefit scheme was acquired with May Gurney in the year ended 30 June 2014 and is closed to future accrual. The most recent triennial valuation of the May Gurney scheme was carried out by the trustees' independent actuaries as at 31 March 2019. At the valuation date the pension scheme's assets were less than the technical provisions and therefore the scheme was in deficit.

The deficit contributions paid in the year ended 30 June 2021 amounted to £4.9m (2020: £2.0m), including an additional payment of £2.0m made in respect of the proceeds received from the sale of Kier Living. On 18 September 2020, the Group agreed a revised deficit recovery plan with the trustees of the May Gurney scheme. Under the new agreement, the previously agreed one-off lump sum payment that was due to be paid in the year ended 30 June 2021 was no longer payable. Based on the revised payment plan, the Group expects to make the following contributions over the next five years:

	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m
Deficit contributions	1.9	1.8	1.8	1.8	1.8

In addition to the above contributions, the trustees and the Group have agreed that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets. The Group has also agreed to meet the scheme's expenses including the Pension Protection Fund levy.

As at 30 June 2021, the scheme had 285 deferred members (2020: 296) and 287 retirees (2020: 288).

Acquired with the Mouchel Group

The Group acquired defined benefit pension schemes with the Mouchel Group. The Mouchel figures comprise four individual pension schemes, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme, which have been grouped together because they were purchased as part of the Mouchel Group. The composition of these schemes has not changed since the prior year.

These schemes were closed to new entrants in 2001 and were closed to future accrual between 2010 and 2017, with the exception of the EM Highways Prudential Platinum Scheme which remains open to future accrual.

The EM Highways Prudential Platinum Scheme is a multi-employer scheme, however, Kier's share is separately identifiable. Therefore, the charge for the period is determined by reference to the change in valuation of this separate section. The EM Highways scheme was formally valued by independent actuaries as at 31 December 2018. At the valuation date the assets of the pension scheme were greater than the technical provisions and therefore the scheme had a funding surplus. The trustees therefore agreed a new schedule of contributions with Kier in January 2020 that no longer required contributions to the past deficit.

The most recent triennial valuations of the remaining Mouchel schemes were carried out by the trustees' independent actuaries as at 31 March 2019. At the valuation date the assets of each of the pension schemes were less than the respective technical provisions and therefore the schemes were in deficit.

The aggregate contributions payable in the year ended 30 June 2021 to the Mouchel schemes amounted to £17.0m (2020: £9.4m) which included regular contributions of £9.6m (2020: £9.2m) to fund the past service deficit and additional deficit payments totalling £7.2m across the Mouchel schemes made in respect of the proceeds received from the sale of Kier Living. On 18 September 2020, the Group agreed revised deficit recovery plans with the trustees of the Mouchel Superannuation Fund, Mouchel Staff Pension Scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section). Under the new agreements, the previously agreed one-off lump sum payments that were due to be paid in the year ended 30 June 2021 were no longer payable. Based on the revised payment plans the Group expects to make the following combined contributions over the next five years:

	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m
Deficit contributions	7.0	6.5	6.5	6.5	6.5

In addition to the above contributions, the trustees and the Group have agreed that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets. The Group has also agreed to meet the schemes' expenses including the Pension Protection Fund levy.

As at 30 June 2021, the Mouchel schemes had a total of 18 active members (2020: 18), 1,684 deferred members (2020: 1,766), and 1,622 retirees (2020: 1,583).

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

9 Retirement benefit obligations continued

The IAS 19 accounting valuation at 30 June 2021 of the Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme indicated that the assets of each of these schemes exceeded their respective scheme liabilities. The Group has recognised these surpluses as retirement benefit assets on its balance sheet under IAS 19 and IFRIC 14, as the Group has determined that it has a right to benefit from any surplus, through either reduced contributions or a refund of the surpluses on winding up of the schemes.

Acquired with the McNicholas Group

The McNicholas defined benefit pension scheme was acquired with the McNicholas Group in the year ended 30 June 2018. The scheme is closed to new entrants and no benefits have accrued since 30 April 2012.

The most recent triennial valuation of the McNicholas scheme was carried out by the trustees' independent actuaries as at 31 March 2020.

The deficit contributions payable in the year ended 30 June 2021 amounted to £1.2m (2020: £1.2m). In June 2021, the Group agreed a revised deficit recovery plan with the trustees of the McNicholas scheme. Based on this payment plan the Group expects to make the following contributions over the next five years:

	2022 £m	2023 £m	2024 £m	2025 £m	2026 £m
Deficit contributions	1.2	1.2	1.2	1.2	0.3

In addition to the above contributions, all of the scheme's expenses including the Pension Protection Fund levy are met by the Group.

As at 30 June 2021, the scheme had a total of 57 deferred members (2020: 57) and 79 retirees (2020: 79).

Other defined contribution schemes

Contributions are also made to a number of other defined contribution arrangements. The Group paid contributions to these arrangements of £24.2m (2020: £27.5m) during the year.

The Group 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 Group is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis and consequently the pension costs for these schemes are treated as if they were defined contribution schemes.

IAS 19 'Employee Benefits' disclosures

The Group recognises any actuarial gains or losses through the statement of comprehensive income as required under IAS 19.

The weighted average duration of the schemes' liabilities is 18 years (2020: 19 years).

The principal assumptions used by the independent qualified actuaries are shown below. This set of assumptions was used to value all of the defined benefit schemes, and has been based on the weighted average duration of the schemes' liabilities.

	2021 %	2020 %
Discount rate	1.90	1.60
Inflation rate (Retail Price Index (RPI))	3.15	2.85
Inflation rate (Consumer Price Index (CPI))	2.60	1.95
Rate of general increases in pensionable salaries	3.15	2.85
Rate of increase in pensions payments liable for Limited Price Indexation:		
– RPI subject to a minimum of 0% and a maximum of 5%	3.05	2.80
– RPI subject to a minimum of 0% and a maximum of 2.5%	2.15	2.05

The mortality assumptions used were as follows:

	2021 years	2020 years
Life expectancy for a male/female currently aged 60		
– Kier Group scheme	27.4 / 29.1	27.4 / 29.0
– May Gurney scheme	27.2 / 29.9	27.2 / 29.8
– Mouchel schemes (weighted average of the four schemes)	27.4 / 29.5	27.3 / 29.3
– McNicholas scheme	26.8 / 29.4	26.5 / 28.6
Life expectancy for a male/female member aged 60, in 20 years' time		
– Kier Group scheme	28.7 / 30.6	28.7 / 30.5
– May Gurney scheme	28.8 / 30.8	28.7 / 30.8
– Mouchel schemes (weighted average of the four schemes)	28.5 / 30.3	28.4 / 30.3
– McNicholas scheme	28.3 / 30.8	28.0 / 30.2

The assets, liabilities and net pension liabilities for the defined benefit arrangements are shown below. The assets are invested with professional investment managers and are measured based on quoted market valuations at the balance sheet date, except for land and property investments that are not held in unitised funds, which are valued based on the latest available professional valuation in accordance with RICS standards.

	2021					2020				
	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Equities	415.8	9.0	60.4	–	485.2	426.4	14.6	77.7	–	518.7
Corporate bonds	795.8	4.8	90.0	5.8	896.4	815.9	5.3	92.8	19.9	933.9
Cash	20.4	16.3	83.5	0.3	120.5	16.0	12.4	90.4	0.4	119.2
Land and property	–	–	3.0	0.1	3.1	–	–	2.9	0.1	3.0
Absolute return	41.2	10.6	24.4	–	76.2	42.2	10.4	23.6	–	76.2
Annuity policies	–	1.1	–	–	1.1	–	1.1	–	–	1.1
Multi-asset	–	6.9	38.5	20.1	65.5	–	6.0	31.8	7.1	44.9
Liability-driven investments	–	36.4	225.5	–	261.9	–	33.7	207.2	–	240.9
Total market value of assets	1,273.2	85.1	525.3	26.3	1,909.9	1,300.5	83.5	526.4	27.5	1,937.9
Present value of liabilities	(1,194.6)	(86.4)	(549.8)	(32.9)	(1,863.7)	(1,210.7)	(88.7)	(564.5)	(35.2)	(1,899.1)
Surplus/(deficit)	78.6	(1.3)	(24.5)	(6.6)	46.2	89.8	(5.2)	(38.1)	(7.7)	38.8
Related deferred tax (liability)/asset	(19.7)	0.1	5.4	1.6	(12.6)	(17.1)	1.0	7.2	1.5	(7.4)
Net pension asset/(liability)	58.9	(1.2)	(19.1)	(5.0)	33.6	72.7	(4.2)	(30.9)	(6.2)	31.4

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

9 Retirement benefit obligations continued

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2021					2020				
	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
(Charged)/credited to operating profit in the income statement										
Current service cost	–	–	(0.2)	–	(0.2)	–	–	(0.2)	–	(0.2)
Past service cost	(0.4)	–	(0.1)	–	(0.5)	–	–	–	–	–
Net interest on net defined benefit obligation	1.5	–	(0.5)	(0.1)	0.9	1.0	0.1	(0.3)	(0.1)	0.7
Pension income/(expense) recognised in the income statement	1.1	–	(0.8)	(0.1)	0.2	1.0	0.1	(0.5)	(0.1)	0.5
Remeasurement in comprehensive loss										
Actual return (less)/greater than that recognised in net interest	(14.3)	(1.8)	(10.5)	–	(26.6)	134.4	6.6	34.3	2.3	177.6
Actuarial (losses)/gains due to changes in financial assumptions	(24.9)	(0.4)	0.6	0.9	(23.8)	(118.5)	(9.2)	(58.1)	(3.8)	(189.6)
Actuarial gains/(losses) due to changes in demographic assumptions	1.3	0.1	1.0	(1.0)	1.4	(3.9)	(2.4)	(27.5)	(0.6)	(34.4)
Actuarial gains/(losses) due to liability experience	11.7	1.1	6.3	0.1	19.2	25.0	(3.7)	18.9	–	40.2
Total amount recognised in full	(26.2)	(1.0)	(2.6)	–	(29.8)	37.0	(8.7)	(32.4)	(2.1)	(6.2)
Changes in the fair value of scheme assets										
Fair value at 1 July	1,300.5	83.5	526.4	27.5	1,937.9	1,189.8	81.0	492.6	26.0	1,789.4
Interest income on scheme assets	20.5	1.4	8.4	0.4	30.7	26.8	1.8	11.2	0.6	40.4
Remeasurement (losses)/gains on scheme assets	(14.3)	(1.8)	(10.5)	–	(26.6)	134.4	6.6	34.3	2.3	177.6
Contributions by the employer	13.9	4.9	17.0	1.2	37.0	12.4	2.0	9.4	1.2	25.0
Net benefits paid out	(47.4)	(2.9)	(16.0)	(2.8)	(69.1)	(62.9)	(7.9)	(21.1)	(2.6)	(94.5)
Fair value at 30 June	1,273.2	85.1	525.3	26.3	1,909.9	1,300.5	83.5	526.4	27.5	1,937.9
Changes in the present value of the defined benefit obligation										
Fair value at 1 July	(1,210.7)	(88.7)	(564.5)	(35.2)	(1,899.1)	(1,150.4)	(79.6)	(507.2)	(32.7)	(1,769.9)
Current service cost	–	–	(0.2)	–	(0.2)	–	–	(0.2)	–	(0.2)
Interest expense on scheme	(19.0)	(1.4)	(8.9)	(0.5)	(29.8)	(25.8)	(1.7)	(11.5)	(0.7)	(39.7)
Past service cost	(0.4)	–	(0.1)	–	(0.5)	–	–	–	–	–
Actuarial (losses)/gains due to changes in financial assumptions	(24.9)	(0.4)	0.6	0.9	(23.8)	(118.5)	(9.2)	(58.1)	(3.8)	(189.6)
Actuarial gains/(losses) due to changes in demographic assumptions	1.3	0.1	1.0	(1.0)	1.4	(3.9)	(2.4)	(27.5)	(0.6)	(34.4)
Actuarial gains/(losses) due to liability experience	11.7	1.1	6.3	0.1	19.2	25.0	(3.7)	18.9	–	40.2
Net benefits paid out	47.4	2.9	16.0	2.8	69.1	62.9	7.9	21.1	2.6	94.5
Fair value at 30 June	(1,194.6)	(86.4)	(549.8)	(32.9)	(1,863.7)	(1,210.7)	(88.7)	(564.5)	(35.2)	(1,899.1)
Amounts included in the balance sheet										
Fair value of scheme assets	1,273.2	85.1	525.3	26.3	1,909.9	1,300.5	83.5	526.4	27.5	1,937.9
Net present value of the defined benefit obligation	(1,194.6)	(86.4)	(549.8)	(32.9)	(1,863.7)	(1,210.7)	(88.7)	(564.5)	(35.2)	(1,899.1)
Net surplus/(deficit)	78.6	(1.3)	(24.5)	(6.6)	46.2	89.8	(5.2)	(38.1)	(7.7)	38.8
Related deferred tax	(19.7)	0.1	5.4	1.6	(12.6)	(17.1)	1.0	7.2	1.5	(7.4)
Net pension asset/(liability)	58.9	(1.2)	(19.1)	(5.0)	33.6	72.7	(4.2)	(30.9)	(6.2)	31.4

The net surplus/(deficit) above is split between retirement benefit assets and obligations in the statement of financial position as follows:

	2021					2020				
	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Retirement benefit assets	78.6	–	8.6	–	87.2	89.8	–	9.7	–	99.5
Retirement benefit obligation	–	(1.3)	(33.1)	(6.6)	(41.0)	–	(5.2)	(47.8)	(7.7)	(60.7)
Net surplus/(deficit)	78.6	(1.3)	(24.5)	(6.6)	46.2	89.8	(5.2)	(38.1)	(7.7)	38.8

The movements in the net retirement benefit surplus/(deficit) are summarised as follows:

	2021					2020				
	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m	Kier Group £m	May Gurney £m	Mouchel £m	McNicholas £m	Total £m
Opening net surplus/(deficit)	89.8	(5.2)	(38.1)	(7.7)	38.8	39.4	1.4	(14.6)	(6.7)	19.5
Current service cost	–	–	(0.2)	–	(0.2)	–	–	(0.2)	–	(0.2)
Past service cost	(0.4)	–	(0.1)	–	(0.5)	–	–	–	–	–
Net interest on net defined benefit obligation	1.5	–	(0.5)	(0.1)	0.9	1.0	0.1	(0.3)	(0.1)	0.7
Contributions by the employer	13.9	4.9	17.0	1.2	37.0	12.4	2.0	9.4	1.2	25.0
Actual return (less)/greater than that recognised in net interest	(14.3)	(1.8)	(10.5)	–	(26.6)	134.4	6.6	34.3	2.3	177.6
Actuarial (losses)/gains due to changes in financial assumptions	(24.9)	(0.4)	0.6	0.9	(23.8)	(118.5)	(9.2)	(58.1)	(3.8)	(189.6)
Actuarial gains/(losses) due to changes in demographic assumptions	1.3	0.1	1.0	(1.0)	1.4	(3.9)	(2.4)	(27.5)	(0.6)	(34.4)
Actuarial gains/(losses) due to liability experience	11.7	1.1	6.3	0.1	19.2	25.0	(3.7)	18.9	–	40.2
Closing net surplus/(deficit)	78.6	(1.3)	(24.5)	(6.6)	46.2	89.8	(5.2)	(38.1)	(7.7)	38.8

History of experience gains and losses for defined benefit schemes in aggregate:

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Fair value of scheme assets	1,909.9	1,937.9	1,789.4	1,681.2	1,636.8
Net present value of the defined benefit obligation	(1,863.7)	(1,899.1)	(1,769.9)	(1,673.3)	(1,721.4)
Net surplus/(deficit)	46.2	38.8	19.5	7.9	(84.6)
Related deferred tax (liability)/asset	(12.6)	(7.4)	(3.3)	(1.3)	14.4
Net pension asset/(liability)	33.6	31.4	16.2	6.6	(70.2)
Difference between expected and actual return on scheme assets	(26.6)	177.6	113.9	19.2	71.9
Experience gains/(losses) on scheme liabilities	19.2	40.2	(5.6)	(0.7)	0.1

Risk exposure

As IAS 19 actual assumptions are driven by market conditions, there is a risk that significant changes in financial market conditions could lead to volatility in the defined benefit obligation disclosed in the balance sheet from year to year. In addition, the asset position may also be volatile as it will be influenced by changes in market conditions. However, the risk of significant changes to the overall balance sheet position has been mitigated to an extent due to the asset hedging strategies in place for the schemes as described below.

The following schemes: Kier Group Pension Scheme, May Gurney Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section), Mouchel Superannuation Fund and Mouchel Staff Pension Scheme (the 'Schemes'), have aligned their investments so that the liability hedging instruments are managed by BMO including cash, physical gilts, gilt repurchase agreements as well as interest and inflation swaps. In combination, the liability hedging assets are designed to hedge each Scheme's sensitivity to changes in interest rate and inflation by 100% of the value of the technical provisions liabilities.

The Kier Group Pension Scheme uses a combination of GBP hedged share classes and a currency hedging strategy in place with SSGA to hedge its currency risk. As at 31 March 2021 (the scheme's year-end date), SSGA was used to hedge 100% exposure to two global property and one hedge fund allocation, all denominated in US dollars. The only unhedged currency exposure the scheme has relates to an equity derivative structure which matures in September 2021, denominated in US dollars (the unhedged currency exposure relates to the value of the derivatives which have a small maximum value relative to the size of the scheme).

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

9 Retirement benefit obligations continued

The remainder of the Schemes primarily use GBP hedged share classes to manage their currency exposure. The unhedged currency exposures mainly relate to a global property allocation denominated in US dollars and an equity derivative structure which matures in September 2021, denominated in US dollars (the unhedged currency exposure has a small value relative to the size of the Schemes).

Pension sensitivity

The following tables show the change in the net surplus or deficit arising from a change in the significant actuarial assumptions used to determine the retirement benefit obligations:

Kier Group scheme:

	2021		2020	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	48.0	(51.0)	49.5	(52.6)
Inflation rate (+/-0.25%)	(36.2)	38.1	(41.7)	36.8
Members assumed to be one year older/younger in age (+/-1 year)	45.2	(45.8)	45.3	(39.8)

May Gurney defined benefit scheme:

	2021		2020	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	3.8	(4.0)	4.0	(4.2)
Inflation rate (+/-0.25%)	(2.9)	2.4	(2.8)	2.6
Members assumed to be one year older/younger in age (+/-1 year)	3.3	(3.4)	3.5	(3.5)

Mouchel defined benefit schemes:

	2021		2020	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	23.6	(25.1)	25.0	(26.7)
Inflation rate (+/-0.25%)	(18.6)	15.5	(17.5)	16.8
Members assumed to be one year older/younger in age (+/-1 year)	20.0	(20.2)	20.8	(21.1)

McNicholas defined benefit scheme:

	2021		2020	
	+0.25%/+1 year £m	-0.25%/-1 year £m	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	1.4	(1.5)	1.5	(1.6)
Inflation rate (+/-0.25%)	(0.4)	0.4	(0.5)	0.6
Members assumed to be one year older/younger in age (+/-1 year)	1.6	(1.6)	1.5	(1.5)

The sensitivity analyses above have been determined based on reasonably possible changes in the respective assumptions occurring at the end of the reporting period and may not be representative of the actual change, which is based on a change in a key assumption while holding all other assumptions constant. When calculating the sensitivity to the assumption, the same method used to calculate the liability recognised in the balance sheet has been applied. The inflation sensitivities shown above include the impact of both RPI and CPI inflation. The methods and types of assumptions used in preparing the sensitivity analyses did not change compared with the previous year.

10 Taxation

Taxation in respect of continuing operations is analysed below. Taxation that is relevant to discontinued operations is considered within note 23.

(a) Recognised in the income statement

	2021 £m	2020 £m
Current tax expense credit		
UK corporation tax	4.2	2.8
Adjustments in respect of prior years	1.0	(2.0)
Total current tax	5.2	0.8
Deferred tax credit		
Origination and reversal of temporary differences	–	(49.7)
Adjustments in respect of prior years	2.9	(3.6)
Rate change effect on deferred tax	(25.5)	(0.9)
Total deferred tax	(22.6)	(54.2)
Total tax credit in the income statement	(17.4)	(53.4)
Reconciliation of effective tax rate		
Profit/(loss) before tax	5.6	(225.3)
Tax on joint ventures included above	(1.4)	(1.4)
Profit/(loss) before tax including joint ventures	4.2	(226.7)
Income tax at UK corporation tax rate of 19.0% (2020: 19.0%)	0.8	(43.1)
Non-deductible expenses and unusable tax losses	0.8	3.2
Income not taxable	(0.9)	–
Group relief not paid for with asset held for sale companies	–	(10.2)
Effect of change in UK corporation tax rate	(25.5)	(0.9)
Share-based payment deduction	–	1.0
Utilisation of tax losses	3.1	0.8
Adjustments in respect of prior years	2.9	(5.6)
Total tax (including joint ventures)	(18.8)	(54.8)
Tax on joint ventures	1.4	1.4
Group tax credit from continuing operations	(17.4)	(53.4)

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. However, the Group does operate and pay taxes in jurisdictions where the tax rate is higher than the UK's statutory rate. The Group does not have an aggressive tax policy and since 1 July 2012 Kier has not entered into any tax avoidance schemes which were or should have been notified under the Disclosure of Tax Avoidance Scheme (DOTAS) rules.

The Group tax credit before tax on joint ventures of £18.8m (2020: £54.8m) shown in the table above equates to an effective tax rate of 447.6% (2020: 24.2%) on profit before tax including joint ventures of £4.2m (2020: £226.7m loss). This effective rate is different from the standard rate of corporation tax of 19.0% (2020: 19.0%) due to items shown in the table above. The non-deductible expenses included before adjusting items mainly relate to depreciation on non-qualifying assets, entertaining and legal and professional fees not eligible for tax relief.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

10 Taxation continued

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn scheme and Long-Term Incentive Plan.

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposure. At the balance sheet date, a deferred tax liability of £2.0m (2020: £2.0m) has been recognised in respect of uncertain tax positions.

The net charge of £3.9m (2020: £5.6m credit) in respect of prior years' results arise from differences between the estimates of taxation included in the previous years' financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC.

(b) Recognised in the cash flow statement

The cash flow statement shows cash received of £11.2m during the year (2020: £5.9m).

(c) Recognised in the statement of comprehensive income

	2021 £m	2020 £m
Deferred tax (credit)/charge (including effect of change in tax rate)		
Fair value movements on cash flow hedging instruments	(0.3)	0.7
Actuarial losses on defined benefit pension schemes	(4.8)	(6.4)
Total tax credit in the statement of comprehensive income	(5.1)	(5.7)

The deferred tax movements on the defined benefit pension scheme comprised £5.9m credit (2020: £1.1m) on current year actuarial movements and £1.1m charge (2020: £5.3m credit) in respect of the movements in tax rates at which deferred tax is being recognised.

(d) Factors that may affect future tax charges

The deferred tax balance as at the year end has mainly been recognised at 25.0% (2020: 19%), which is the enacted corporation tax rate effective from 1 April 2023. The deferred tax which is expected to be reversed before at a rate of 19% has been calculated as £8.4m and has been reflected in the closing deferred tax balance.

Further disclosures in respect of the recoverability of the deferred tax asset have been included in note 18.

(e) Tax losses

At the balance sheet date, the Group has unused tax losses of £659.9m (2020: £667.9m) available for offset against future profits. A deferred tax asset has been recognised on £452.3m (2020: £497.8m) of these losses.

No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

(f) RDEC

The Research and Development Expenditure Credit (RDEC) of £13.3m was included in operating profit during the year (2020: £10.2m). Included in the corporation tax asset at 30 June 2021 were RDEC receivables of £12.4m (2020: £13.6m).

11 Dividends

The Group's focus on cash generation and reducing net debt has required a suspension in dividend payments. No interim or final dividends have been declared during the year (2020: £nil).

The parent company of the Group, Kier Group plc, is a non-trading holding company which derives its distributable reserves in part from dividends received from its subsidiaries. In determining the level of dividend payable in any year, in addition to the stated policy, the Board considers a number of other factors, including the following:

- › the level of distributable reserves in the parent company, Kier Group plc;
- › the level of distributable reserves in Kier Group plc's subsidiaries that are available to be distributed to Kier Group plc;
- › the availability of cash resources;
- › the Group's borrowing covenants;
- › future cash commitments and investment plans to support the long-term growth of the Group; and
- › potential strategic opportunities under consideration.

The Board reviews the level of distributable reserves in the parent company at least twice a year ahead of announcing proposed interim and final dividends.

Distributable reserves can be significantly impacted by movements in pension liabilities. The reserves of Kier Group plc are not directly affected by these movements as the pension surpluses and liabilities are on the balance sheets of a certain number of the Company's subsidiaries. However, movements in the pension liabilities do have an effect on the level of distributable reserves in Kier Group plc's subsidiaries that are available to be paid up to the parent. Actuarial gains only increase the distributable reserves to the extent that they represent reversals of previous actuarial losses, otherwise they are treated as unrealised and are not distributable.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

12 Earnings/(losses) per share

A reconciliation of loss and earnings per share, as reported in the income statement, to profit and earnings per share before adjusting items is set out below. The disclosure is made to illustrate the impact of adjusting items.

Earnings/(losses)	2021		2020 ³	
	Basic £m	Diluted £m	Basic £m	Diluted £m
Earnings/(losses)				
Continuing operations				
Profit/(loss) (after tax and minority interests), being net losses attributable to equity holders of the parent	24.3	24.3	(171.9)	(171.9)
Impact of adjusting items net of tax¹:				
Amortisation of intangible assets – net of tax credit of £4.0m (2020: £4.5m)	17.0	17.0	19.2	19.2
Acquisition discount unwind – net of tax credit of £nil (2020: £0.3m) ²	–	–	1.2	1.2
Other adjusting items – net of tax credit of £27.7m (2020: £40.7m credit)	11.1	11.1	176.2	176.2
Earnings from continuing operations before adjusting items	52.4	52.4	24.7	24.7
Discontinued operations				
Losses (after tax and non-controlling interests), being net loss attributable to equity holders of the parent	(0.3)	(0.3)	(12.8)	(12.8)
Adjusting items from discontinued operations	(24.3)	(24.3)	(88.6)	(88.6)
Loss from discontinued operations	(24.6)	(24.6)	(101.4)	(101.4)
	Million	Million	Million	Million
Weighted average number of shares used for earnings per share	210.3	212.3	201.6	201.6

Earnings/(losses) per share	2021		2020	
	Basic pence	Diluted pence	Basic pence	Diluted pence
Continuing operations				
Profit/(loss) (after tax and minority interests), being net losses attributable to equity holders of the parent	11.6	11.4	(85.3)	(85.3)
Impact of adjusting items net of tax¹:				
Amortisation of intangible assets	8.1	8.0	9.5	9.5
Acquisition discount unwind ²	–	–	0.6	0.6
Other adjusting items	5.3	5.2	87.4	87.4
Earnings from continuing operations before adjusting items	25.0	24.6	12.2	12.2
Discontinued operations				
Losses (after tax and minority interests), being net losses attributable to equity holders of the parent	(0.1)	(0.1)	(6.3)	(6.3)
Adjusting items from discontinued operations	(11.6)	(11.4)	(43.9)	(43.9)
Loss from discontinued operations	(11.7)	(11.5)	(50.2)	(50.2)
Total (losses)/earnings per share				
Statutory	(0.1)	(0.1)	(135.5)	(135.5)
Before adjusting items¹	24.9	24.5	5.9	5.9

¹ See note 5 for reference to adjusting items.

² Unwind of discount in respect of deferred consideration.

³ Earnings per share has been re-presented in the comparative information as a result of the equity raise which completed on 18 June 2021, see note 27.

Options granted to employees under the Sharesave, CSAP and LTIP schemes are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required performance obligations would have been met based on the Group's performance up to the reporting date, and to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the share option schemes are set out in note 28.

13 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software ¹ £m	Total £m
Cost				
At 1 July 2019	544.7	259.4	155.0	959.1
Additions	–	–	4.0	4.0
Disposals	–	–	(20.1)	(20.1)
Transfers to property, plant and equipment	–	–	(8.7)	(8.7)
Transfers to assets held for sale	(5.9)	–	(4.8)	(10.7)
At 30 June 2020	538.8	259.4	125.4	923.6
Additions	–	–	3.1	3.1
Disposals	–	–	(1.1)	(1.1)
Transfers from property, plant and equipment	–	–	0.9	0.9
At 30 June 2021	538.8	259.4	128.3	926.5
Accumulated amortisation and impairment				
At 1 July 2019	(8.0)	(111.0)	(73.4)	(192.4)
Charge for the year	–	(23.7)	(11.0)	(34.7)
Disposals	–	–	15.1	15.1
Transfers to assets held for sale	5.9	–	3.1	9.0
At 30 June 2020	(2.1)	(134.7)	(66.2)	(203.0)
Charge for the year	–	(21.0)	(8.3)	(29.3)
Impairment reversal ²	–	–	2.4	2.4
Disposals	–	–	0.6	0.6
At 30 June 2021	(2.1)	(155.7)	(71.5)	(229.3)
Net book value				
At 30 June 2021	536.7	103.7	56.8	697.2
At 30 June 2020	536.7	124.7	59.2	720.6

¹ Computer software mainly relates to the Group's ERP implementation which was completed in FY19 and is being amortised.

² Impairment relating to a prior year disposal has been reversed during the year.

Goodwill largely relates to the Infrastructure Services cash generating unit (CGU) and has been built up through acquisitions, primarily MRBL Limited (Mouchel Group) (£299.2m), May Gurney Integrated Services PLC (£194.7m) and McNicholas Construction Holdings Limited (£42.8m). These balances have been subject to an annual impairment review based upon the projected profits of each CGU.

The intangible contract rights were recognised on the acquisition of:

- › North Tyneside Council – Cost £7.2m (2020: £7.2m). Net book value £nil (2020: £nil).
- › Stewart Milne – Cost £1.0m (2020: £1.0m). Net book value £0.1m (2020: £0.1m).
- › May Gurney Integrated Services plc – Cost £106.8m (2020: £106.8m). Net book value £45.4m (2020: £53.1m).
- › MRBL Limited (Mouchel Group) – Cost £127.1m (2020: £127.1m). Net book value £56.7m (2020: £68.1m).
- › McNicholas Construction (Holdings) Limited – Cost £12.1m (2020: £12.1m). Net book value £0.2m (2020: £1.9m).
- › Kier Education Services Limited – Cost £2.8m (2020: £2.8m). Net book value £nil (2020: £nil).
- › Certain business and assets of Babcock Civil Infrastructure Limited – Cost £1.6m (2020: £1.6m). Net book value £1.3m (2020: £1.4m).
- › Solum Regeneration LLP joint venture – Cost £0.4m (2020: £0.4m). Net book value £nil (2020: £nil).
- › Watford Health Campus LLP joint venture – Cost £0.4m (2020: £0.4m). Net book value £nil (2020: £0.1m).

Contract rights on May Gurney and Mouchel are amortised on a straight-line basis over the expected total contract duration. All other contract rights are amortised on a straight-line basis over the remaining contract life.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

13 Intangible assets continued

Carrying amounts of goodwill and intangible contract rights by CGU

	2021			2020		
	Goodwill £m	Intangible contract rights £m	Total £m	Goodwill £m	Intangible contract rights £m	Total £m
Infrastructure Services	516.3	102.2	618.5	516.3	123.0	639.3
Construction	20.4	1.5	21.9	20.4	1.6	22.0
Property	–	–	–	–	0.1	0.1
	536.7	103.7	640.4	536.7	124.7	661.4

For impairment testing purposes, the goodwill has been allocated to the above three CGUs, being the lowest level at which management monitors goodwill. Following a change in reporting structure, the Group has reviewed the carrying value of goodwill to these CGUs as disclosed in note 3. The recoverable amount of the goodwill and intangibles has been determined based on value in use calculations, which use cash flow projections based on the Group's forecasts approved by management, covering a three-year period.

Goodwill allocated to the Construction CGU is not significant in comparison to the Group's total goodwill.

The resulting cash flows are discounted to present value, with the discount rate used in the value in use calculations based on the Group's weighted average cost of capital, adjusted as necessary to reflect the risk associated with the assets being tested.

The cost of equity is calculated using observable market data from the Group's competitors. This data is used to calculate an average unlevered beta value after excluding any outliers. The average beta is then applied to the UK's equity risk premium and a risk free rate added.

The cost of debt is calculated by taking the weighted average interest rate of the Group's debt and adjusting for the tax rate.

The cost of equity and cost of debt are then combined using the Group's debt/equity split. Finally, a risk premium specific to the Group is added to calculate the weighted average cost of capital. Pre-tax discount rates have been applied to the cash flows for each CGU that are derived from the Group's weighted average cost of capital of 9.1% (2020: 9.7%).

The key assumptions in the value in use calculations are the forecast revenues and operating margins, the discount rates applied to future cash flows and the terminal growth rate assumptions applied.

Infrastructure Services CGU

Forecast revenue growth rates and operating profit margins are based on historical experience, adjusted for the impact of expected changes to contract portfolio and profitability. A 2% revenue growth rate has been used from year four onwards in line with long-term inflation expectations for the UK. Based on the value in use calculation, these assumptions detailed below derived a recoverable amount for the Infrastructure Services CGU that is £117.0m (2020: £32.6m) above the carrying value of CGU assets.

The Infrastructure Services CGU impairment review is sensitive to changes in the following key assumptions: discount rate, revenue growth rate, operating margin and perpetual growth rates. Management considers that a reasonably possible change in any single assumption could give rise to an impairment of the carrying value of goodwill and intangibles.

Forecast revenue growth rates from FY22 to FY24 range from 2.3% to 31.8% (2020: FY21 to FY23 range from 6.2% to 25.1%) which includes, in particular, the impact of the Group's HS2 contract. A reduction of 5.1% (2020: 1.6%) to the average growth rate would be required for headroom to be eliminated. A 0.5% reduction in growth rate in each year would reduce headroom by £12.0m (2020: £10.5m).

A terminal revenue growth rate of 2.0% (2020: 1.5%) has been applied into perpetuity. This would need to reduce by 1.5% (2020: 0.5%) to eliminate headroom. A 0.5% reduction would reduce headroom by £42.8m (2020: £32.6m).

Forecast operating margins from FY22 to FY24 are 4.4% each year (2020: FY21 to FY23 range from 3.7% to 4.1%). A reduction of 2.3% (2020: 0.6%) in operating margin would be required to eliminate headroom. A 0.5% reduction in margins would result in a reduction in headroom of £25.0m (2020: £25.3m).

A fixed operating margin of 4.4%, consistent with the margin in FY24, has been applied into perpetuity. A reduction of 0.7% (2020: 0.2%) in margin would be required to eliminate headroom. A 0.5% reduction in operating margin would reduce headroom by £87.3m (2020: result in an impairment of £50.8m).

The pre-tax discount rate used is 11.2% (2020: 11.7%). An increase in discount rate of 1.3% (2020: 0.4%) would eliminate headroom. A 0.5% increase in discount rate would reduce headroom by £49.8m (2020: result in an impairment of £8.1m).

14 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Mining asset ³ £m	Total £m
Cost				
At 30 June 2019	62.2	80.1	4.8	147.1
Impact of adopting IFRS 16 ²	(4.2)	(35.2)	–	(39.4)
At 1 July 2019	58.0	44.9	4.8	107.7
Additions	1.6	2.2	–	3.8
Disposals	(0.7)	(20.2)	–	(20.9)
Transfers ¹	(22.9)	10.9	–	(12.0)
Currency realignment	–	0.2	–	0.2
At 30 June 2020	36.0	38.0	4.8	78.8
Additions	–	3.3	–	3.3
Disposals	(4.1)	(9.5)	–	(13.6)
Transfers ¹	0.4	10.6	–	11.0
Currency realignment	–	(0.7)	–	(0.7)
At 30 June 2021	32.3	41.7	4.8	78.8
Accumulated depreciation and impairment				
At 30 June 2019	(18.9)	(66.1)	(4.8)	(89.8)
Impact of adopting IFRS 16 ²	1.1	33.4	–	34.5
At 1 July 2019	(17.8)	(32.7)	(4.8)	(55.3)
Charge for the year	(1.0)	(6.6)	–	(7.6)
Impairment	(5.4)	–	–	(5.4)
Disposals	0.4	19.0	–	19.4
Transfers ¹	12.7	(0.3)	–	12.4
At 30 June 2020	(11.1)	(20.6)	(4.8)	(36.5)
Charge for the year	(0.6)	(5.8)	–	(6.4)
Disposals	2.9	9.2	–	12.1
Transfers ¹	(0.4)	(4.8)	–	(5.2)
Currency realignment	–	0.5	–	0.5
At 30 June 2021	(9.2)	(21.5)	(4.8)	(35.5)
Net book value				
At 30 June 2021	23.1	20.2	–	43.3
At 30 June 2020	24.9	17.4	–	42.3

¹ Includes transfers between asset classes, assets held for sale and intangible assets as follows:

- › Net book value of intangible assets transferred from plant and equipment was £0.9m (2020: £8.7m to plant and equipment).
- › Net book value of land and buildings transferred from assets held for sale was £2.0m (2020: £nil).
- › Net book value of plant and equipment transferred from assets held for sale was £4.7m (2020: £nil).
- › Net book value of land and buildings transferred to investment properties was £nil (2020: £8.3m).
- › Net book value of land and buildings transferred to plant and equipment was £2.0m (2020: £1.9m).

² The net book value of plant and equipment as at 30 June 2019 included an amount of £4.9m in respect of assets held under finance leases. These assets were reclassified as right-of-use assets on transition to IFRS 16.

³ The mining asset represents the stripping activity at the UK Mining operations site. The asset has been depreciated over the expected useful life of the coal that becomes more accessible as a result of the stripping activity.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

15 Investment properties

(a) Reconciliation of carrying amount

	Owned assets £m	Right-of-use assets £m	Total £m
At 1 July 2019	–	–	–
Transferred from owner-occupied property, plant and equipment	8.3	–	8.3
Transferred from right-of-use assets	–	42.1	42.1
Fair value loss recognised in administrative expenses	–	(0.6)	(0.6)
At 30 June 2020	8.3	41.5	49.8
Additions	–	0.1	0.1
Fair value loss recognised in administrative expenses	–	(0.3)	(0.3)
At 30 June 2021	8.3	41.3	49.6

Investment properties comprise office buildings that were formerly utilised by the Group that have been vacated and are now leased out (or intended to be leased out) to third parties under operating leases. The investment properties include a property held as a right-of-use asset, as well as a property owned by the Group. The investment properties are carried at fair value. Changes in fair values are presented in the profit or loss within administrative expenses.

(b) Amounts recognised in the income statement

Year to 30 June 2021:

	Owned assets £m	Right-of-use assets £m	Total £m
Rental income from operating leases	–	0.8	0.8
Direct operating expenses for property that generated rental income	–	(1.2)	(1.2)
Direct operating expenses for property that did not generate rental income	(0.6)	–	(0.6)
Fair value adjustment	–	(0.3)	(0.3)
Total loss recognised in the income statement	(0.6)	(0.7)	(1.3)

Year to 30 June 2020:

	Owned assets £m	Right-of-use assets £m	Total £m
Rental income from operating leases	–	0.4	0.4
Direct operating expenses for property that generated rental income	–	(0.8)	(0.8)
Direct operating expenses for property that did not generate rental income	–	–	–
Fair value adjustment	–	(0.6)	(0.6)
Total loss recognised in the income statement	–	(1.0)	(1.0)

The losses relating to investment properties are included in adjusting items (see note 5).

(c) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable either monthly or quarterly. Lease payments for some contracts include provisions for RPI increases. One contract entitles the Group to an element of variable lease rentals (in addition to the based rent payments) based on a share of the tenant's revenue in carrying out their business of providing serviced offices and hot desking space at the premises. Although the Group is exposed to changes in the residual value at the end of the current leases, the Group intends to enter into new operating leases and therefore will not immediately realise any reduction in residual value at the end of these leases. One of the leases includes a tenant option to renew the lease for a further 10 years. Expectations about the future residual values are reflected in the fair value of the properties.

Minimum lease payments receivable on leases of investment properties are as follows:

	2021 £m	2020 £m
Less than one year	1.5	1.3
One to two years	1.5	1.3
Two to three years	1.7	1.3
Three to four years	1.5	1.3
Four to five years	1.4	1.1
Over five years	2.3	3.4
Total	9.9	9.7

(d) Measurement of fair values

The fair value of the owned investment property was determined as at 30 June 2020 by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The valuation has been updated by the Group as at 30 June 2021, with consideration of market changes in the past 12 months. The fair values of the right-of-use investment properties have been determined by the Group without the use of an independent valuer. The fair value measurements for all of the investment properties have been categorised as Level 3 fair values (as defined in note 30), based on the inputs to the valuation techniques used.

The following table shows the valuation technique used in measuring the fair value of investment property, as well as the significant unobservable inputs used.

Investment property	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Owned assets	Market approach: The fair value has been determined by adopting an investment approach and assuming continued use as offices.	The external valuation is performed every two years. The last valuation was carried out as at 30 June 2020, using the following inputs: - Expected market rental growth of 0%; - Occupancy rate average of 95%; - Void periods of 24 months to 36 months; and - Rent free periods of 12 months on a 5-year lease. In years where no valuation is performed, the fair value is reviewed taking into consideration any changes in market conditions and any offers received on the property and adjustments made accordingly.	The estimated fair value would increase/(decrease) if: - Expected market rental growth were higher/(lower); - The occupancy rate was higher/(lower); - Void periods were shorter/(longer); or - Rent free periods were shorter/(longer).
Right-of-use assets	Income approach using discounted cash flows: The valuation model considers the present value of net cash flows to be generated from the property, taking into account the expected rental growth rate, void periods, occupancy rate, lease incentive costs such as rent-free periods and other costs not paid by tenants. The expected net cash flows are discounted using risk-adjusted discount rates.	- Expected market rental growth (2021: 1%; 2020: 1%); - Occupancy rate (2021: average of 97%; 2020: average of 96%); - Rent-free/void periods (2021: 6 months at the end of each tenancy; 2020: 6 months); and - Risk-adjusted discount rate (2021: 4.2%; 2020 4.2%).	The estimated fair value would increase/(decrease) if: - Expected market rental growth were higher/(lower); - The occupancy rate was higher/(lower); - Rent-free/void periods were shorter/(longer); or - The risk-adjusted discount rate was lower/(higher).

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

16 Investments in and loans to joint ventures

(a) Movements in year

	2021 £m	2020 £m
Investments in joint ventures		
At 1 July	105.6	246.3
Additions	9.2	14.2
Loan repayments	(7.7)	(2.1)
Disposals	–	(12.3)
Transferred to assets held for sale	–	(103.8)
Share of:		
Operating loss	(0.1)	(7.5)
Finance costs	(1.6)	(0.5)
Taxation	1.4	1.4
Post-tax results of joint ventures – continuing operations	(0.3)	(6.6)
Post-tax results of joint ventures – discontinued operations	–	6.4
Dividends received	(6.3)	(28.9)
Return of equity	(1.6)	(7.3)
Items recognised directly in other comprehensive income/(losses):		
Fair value movements in cash flow hedging instruments ¹	–	(0.3)
At 30 June	98.9	105.6

¹ None of the fair value movements in cash flow hedging instruments or deferred tax on fair value movements in cash flow hedging instruments have been recycled to the income statement in the current or prior year.

(b) Analysis of investments in and loans to joint ventures

	2021 £m	2020 £m
Non-current assets		
Investment properties	42.5	54.0
Other non-current assets	0.6	–
Non-current assets	43.1	54.0
Current assets		
Cash and trade receivables	157.9	174.7
Current assets	157.9	174.7
Total assets	201.0	228.7
Current liabilities		
Trade and other payables	(17.7)	(17.8)
Current liabilities	(17.7)	(17.8)
Non-current liabilities		
Borrowings	(83.7)	(101.2)
Deferred tax liabilities	(0.1)	(0.6)
Other non-current liabilities	(0.6)	(3.5)
Non-current liabilities	(84.4)	(105.3)
Total liabilities	(102.1)	(123.1)
At 30 June	98.9	105.6

(c) Interests in joint ventures

Set out below are the joint ventures of the Group as at 30 June 2021 which, in the opinion of the Directors, are material to the Group. See note 34 for the full list of joint ventures. All of the entities are private entities and therefore do not have a quoted fair value. The country of incorporation or registration is also their principal place of business. All are measured under the equity method.

Name of entity	Place of business/ country of incorporation	% of ownership interest/ voting rights 2021	% of ownership interest/ voting rights 2020	Nature of relationship	Carrying amount 2021 £m	Carrying amount 2020 £m
Kier Trade City ¹	England and Wales	90% / 50%	90% / 50%	Property division	11.1	18.2
Solum Regeneration ²	England and Wales	50% / 50%	50% / 50%	Property division	31.7	33.2
Kier Cornwall Street ³	England and Wales	90% / 50%	90% / 50%	Property division	12.5	13.9
Kier (Newcastle) ⁴	England and Wales	75% / 50%	75% / 50%	Property division	8.2	7.4
Kier (Southampton) ⁵	England and Wales	75% / 50%	75% / 50%	Property division	10.8	8.5
Watford Health Campus ⁶	England and Wales	50% / 50%	50% / 50%	Property division	9.2	10.1
Kier Richmond ⁷	England and Wales	90% / 50%	90% / 50%	Property division	7.7	7.1
Immaterial joint ventures					7.7	7.2
					98.9	105.6

¹ Kier Trade City consists of Kier Trade City Holdco 1 LLP, Kier Trade City Holdco 2 LLP and Kier Trade City LLP.

² Solum Regeneration consists of Solum Regeneration Bishops LLP, Solum Regeneration (Epsom) Limited Partnership, Solum Regeneration (Guildford) LLP, Solum Regeneration (Haywards) LLP, Solum Regeneration (Kingswood) LLP, Solum Regeneration (Maidstone) LLP, Solum Regeneration (Redhill) LLP, Solum Regeneration (Surbiton) LLP, Solum Regeneration (Twickenham) LLP, Solum Regeneration (Walthamstow) LLP, Solum Regeneration Epsom (GP Subsidiary) Limited, Solum Regeneration Epsom (GP) Limited, Solum Regeneration Epsom (Residential) LLP, Solum Regeneration Holding 1 LLP and Solum Regeneration Holding 2 LLP.

³ Kier Cornwall Street consists of Kier Cornwall Street Holdings 1 LLP, Kier Cornwall Street Holdings 2 LLP and Kier Cornwall Street LLP.

⁴ Kier (Newcastle) consists of Kier (Newcastle) Investment Limited, Kier (Newcastle) Operation Limited and Magnetic Limited.

⁵ Kier (Southampton) consists of Kier (Southampton) Development Limited, Kier (Southampton) Investment Limited and Kier (Southampton) Operations Limited.

⁶ Watford Health Campus consists of Watford Health Campus Limited, Watford Health Campus Partnership LLP, Watford Riverwell (Family Housing) LLP and Watford Woodlands LLP.

⁷ Kier Richmond consists of Kier Richmond Holdings Limited and Kier Richmond Limited.

(d) Borrowing facilities and guarantees to joint ventures

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

	2021			2020		
	Borrowing facility £m	Guarantees £m	Drawn at 30 June £m	Borrowing facility £m	Guarantees £m	Drawn at 30 June £m
Kier Trade City LLP	27.4	6.5	21.6	36.4	5.7	11.9
50 Bothwell Street LLP	–	–	–	16.5	16.5	16.5
Solum Regeneration (Twickenham) LLP	–	–	–	38.2	9.5	31.1
	27.4	6.5	21.6	91.1	31.7	59.5

Other than as disclosed above the liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given in note 34.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

16 Investments in and loans to joint ventures continued

(e) Summarised financial information for joint ventures

The tables below provide summarised financial information for those joint ventures that are material to the Group. The information disclosed reflects the amounts presented in the financial statements of the relevant joint ventures and not the Group's share of those amounts. They have been amended to reflect adjustments made by the entity when using the equity method, including fair value adjustments and modifications for differences in accounting policy.

	Kier Trade City		Solum Regeneration		Kier Cornwall Street		Kier (Newcastle)	
	2021	2020	2021	2020	2021	2020	2021	2020
	£m	£m	£m	£m	£m	£m	£m	£m
Summarised balance sheet								
Current assets								
Cash and cash equivalents	–	2.3	1.0	2.9	3.2	4.3	0.4	0.7
Other current assets	35.3	30.0	65.8	112.0	37.6	37.3	3.1	3.0
Current assets	35.3	32.3	66.8	114.9	40.8	41.6	3.5	3.7
Non-current assets	–	–	–	–	–	–	25.1	25.2
Current liabilities								
Other current liabilities	(1.4)	(0.1)	(3.4)	(17.0)	(1.9)	(1.2)	(5.2)	(1.6)
Total current liabilities	(1.4)	(0.1)	(3.4)	(17.0)	(1.9)	(1.2)	(5.2)	(1.6)
Non-current liabilities								
Financial liabilities (excluding trade payables)	(21.6)	(12.0)	–	(31.6)	(25.0)	(25.0)	(12.4)	(17.0)
Other non-current liabilities	–	–	–	–	–	–	(0.1)	(0.4)
Total non-current liabilities	(21.6)	(12.0)	–	(31.6)	(25.0)	(25.0)	(12.5)	(17.4)
Net assets	12.3	20.2	63.4	66.3	13.9	15.4	10.9	9.9
Reconciliation to carrying amounts:								
Net assets at 1 July	20.2	14.6	66.3	76.5	15.4	15.9	9.9	9.3
Capital introduced	–	5.5	4.9	3.6	–	–	1.3	–
Profit/(loss) for the year	5.3	2.6	(7.5)	(6.8)	(1.5)	(0.2)	(0.3)	0.6
Other comprehensive expense	–	–	–	–	–	(0.3)	–	–
Loan repayments	(8.5)	–	–	–	–	–	–	–
Dividends paid	(4.7)	(2.5)	(0.3)	(7.0)	–	–	–	–
Net assets at 30 June	12.3	20.2	63.4	66.3	13.9	15.4	10.9	9.9
Group's share (%)	90%	90%	50%	50%	90%	90%	75%	75%
Investment in joint venture	11.1	18.2	31.7	33.2	12.5	13.9	8.2	7.4
Summarised income statement								
Revenue	20.8	16.5	49.5	12.6	0.8	2.1	1.3	2.0
Finance costs	–	–	–	–	(1.4)	(0.2)	–	(0.4)
Taxation	–	–	–	–	–	–	–	0.6
Profit/(loss) for the year from continuing operations	5.3	2.6	(7.5)	(6.8)	(1.5)	(0.2)	(0.3)	0.6
Profit/(loss) for the year	5.3	2.6	(7.5)	(6.8)	(1.5)	(0.2)	(0.3)	0.6
Other comprehensive expense	–	–	–	–	–	(0.3)	–	–
Total comprehensive income/(expense)	5.3	2.6	(7.5)	(6.8)	(1.5)	(0.5)	(0.3)	0.6
Dividends received from joint ventures	4.2	2.3	0.1	3.5	–	–	–	–

	Kier (Southampton)		Watford Health Campus		Kier Richmond	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Summarised balance sheet						
Current assets						
Cash and cash equivalents	1.1	1.8	0.6	1.7	–	0.1
Other current assets	3.2	3.8	35.8	33.8	19.4	18.6
Current assets	4.3	5.6	36.4	35.5	19.4	18.7
Non-current assets	31.5	31.5	–	–	–	–
Current liabilities						
Other current liabilities	(3.5)	(1.1)	(9.0)	(6.4)	–	–
Total current liabilities	(3.5)	(1.1)	(9.0)	(6.4)	–	–
Non-current liabilities						
Financial liabilities (excluding trade payables)	(17.8)	(20.9)	(9.0)	(9.0)	(10.8)	(10.8)
Other non-current liabilities	–	(3.7)	–	–	–	–
Total non-current liabilities	(17.8)	(24.6)	(9.0)	(9.0)	(10.8)	(10.8)
Net assets	14.5	11.4	18.4	20.1	8.6	7.9
Reconciliation to carrying amounts:						
Net assets at 1 July	11.4	14.9	20.1	20.5	7.9	11.3
Capital introduced	2.9	–	0.8	5.3	–	–
Profit/(loss) for the year	0.2	(3.5)	1.6	3.3	0.7	(3.4)
Return of equity	–	–	(3.4)	–	–	–
Dividends paid	–	–	(0.7)	(9.0)	–	–
Net assets at 30 June	14.5	11.4	18.4	20.1	8.6	7.9
Group's share (%)	75%	75%	50%	50%	90%	90%
Investment in joint venture	10.8	8.5	9.2	10.1	7.7	7.1
Summarised income statement						
Revenue	1.5	2.6	18.6	21.5	1.1	1.1
Depreciation and amortisation	(0.1)	–	–	–	–	–
Finance costs	(0.5)	–	–	–	–	–
Taxation	0.5	0.9	–	–	(0.1)	–
Profit/(loss) for the year from continuing operations	0.2	(3.5)	1.6	3.3	0.7	(3.4)
Profit/(loss) for the year	0.2	(3.5)	1.6	3.3	0.7	(3.4)
Total comprehensive income/(expense)	0.2	(3.5)	1.6	3.3	0.7	(3.4)
Dividends received from joint ventures	–	–	0.4	4.5	–	–

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

16 Investments in and loans to joint ventures continued

(f) Individually immaterial joint ventures

In addition to the interests in joint ventures disclosed above, the Group also has interests in a number of individually immaterial joint ventures that are accounted for using the equity method.

	2021 £m	2020 £m
Aggregate carrying amount of individually immaterial joint ventures	7.7	7.2
Dividends received from individually immaterial joint ventures	1.6	2.5
Aggregate amounts of the Group's share of:		
Loss from continuing operations	(1.3)	(1.8)
Total comprehensive expense	(1.3)	(1.8)

17 Capitalised mobilisation costs

	2021 £m	2020 £m
At 1 July	1.9	3.3
Additions	3.5	0.8
Amortisation	(1.6)	(1.5)
Impairment	–	(0.7)
At 30 June	3.8	1.9

18 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year:

	Intangible assets £m	Property, plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2019	(24.6)	19.0	(2.7)	(3.3)	59.3	47.7
Credited/(charged) to income statement – continuing	1.2	12.8	15.4	(10.5)	35.3	54.2
Reserves	–	–	3.4	–	–	3.4
(Charged)/credited directly to comprehensive income	–	–	(0.7)	6.4	–	5.7
At 30 June 2020	(23.4)	31.8	15.4	(7.4)	94.6	111.0
(Charged)/credited to income statement – continuing	(0.2)	4.8	13.6	(10.0)	14.4	22.6
Credited to income statement – discontinued	–	–	–	–	0.4	0.4
Acquisitions and disposals	–	(0.3)	–	–	(0.8)	(1.1)
Credited directly to comprehensive income	–	–	0.3	4.8	–	5.1
At 30 June 2021	(23.6)	36.3	29.3	(12.6)	108.6	138.0

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 £m
Property, plant and equipment	36.3	31.8	–	–	36.3	31.8
Intangible assets	–	–	(23.6)	(23.4)	(23.6)	(23.4)
Retirement benefit obligations	–	–	(12.6)	(7.4)	(12.6)	(7.4)
Other short-term timing differences	29.3	15.4	–	–	29.3	15.4
Tax losses	108.6	94.6	–	–	108.6	94.6
Total	174.2	141.8	(36.2)	(30.8)	138.0	111.0
Set-off tax	(36.2)	(30.8)	36.2	30.8	–	–
Net tax assets	138.0	111.0	–	–	138.0	111.0

When considering the recoverability of net deferred tax assets, the taxable profit forecasts are based on the same Board-approved information used to support the going concern and goodwill impairment assessments. More information on these forecasts and the methodology applied are included in notes 1 and 13.

The following evidence has been considered when assessing whether these forecasts are achievable and realistic:

- › Significant progress has been made in the year on the operational and financial turnaround strategy announced in June 2019, with the business trading slightly ahead of Board expectations in 2021;
- › The Group has substantially completed its restructuring activities, with a significant reduction in adjusting items in the year; and
- › The Group's core businesses are well-placed to benefit from the announced and committed UK Government spending plans to invest in infrastructure, decarbonisation and spending to support post COVID-19 recovery.

When considering the length of time over which the losses are expected to be utilised, the Group has taken into account that generally only 50% of profits in each year can be offset by brought forward losses.

Based on these forecasts, the Group is expected to utilise its deferred tax asset over a period of approximately 12 years.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

19 Contract assets and liabilities

(a) Current contract assets

	2021 £m	2020 £m
At 1 July	249.7	466.0
Revenue adjustments recognised in the period for performance obligations satisfied in previous periods due to changes in the transaction price arising from changes in estimates of variable revenue ¹	(9.0)	(13.3)
Transferred to receivables	(223.8)	(398.5)
Transferred to assets held for sale	–	(12.8)
Balance remaining in relation to contract assets at the start of the year	16.9	41.4
Increase related to services provided in the year	318.8	208.3
At 30 June	335.7	249.7

¹ The 2021 movement includes an amount of £8.5m in respect of downward revisions of estimated variable income relating to the Regional Southern Build business, following a full review of its projects in the year, see note 5.

Current contract assets have increased by £86.0m in the year due to the timing of invoicing (there is a corresponding reduction in trade receivables of £31.7m), a return to normal levels following a significant reduction in the prior year balance due to faster payments from public bodies in response to COVID-19 and the effect of new contracts (the most significant being HS2).

(b) Non-current contract assets

	2021 £m	2020 £m
At 1 July	28.8	25.2
Increase related to services provided in the year	1.9	3.6
At 30 June	30.7	28.8

(c) Current contract liabilities

	2021 £m	2020 £m
At 1 July	(108.7)	(134.0)
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	105.2	87.7
Contract liabilities repaid	1.4	–
Balances removed due to transfers to liabilities held for sale	–	2.7
Balance remaining in relation to contract liabilities at the start of the year	(2.1)	(43.6)
Increase due to cash received or invoices raised in the year for performance obligations not recognised in revenue	(57.8)	(65.1)
At 30 June	(59.9)	(108.7)

Current contract liabilities have decreased as a result of a reduction in up-front payments (in part due to the reversal of the COVID-19 public body payment response in the prior year) and a number of overseas construction contracts (where up-front payments are commonplace) completed or nearing completion, resulting in an unwind of previous advances.

20 Trade and other receivables

	2021 £m	2020 £m
Current:		
Trade receivables	50.7	82.4
Construction contract retentions	84.8	80.9
Amounts receivable from joint ventures	1.7	12.9
Other receivables	3.5	25.0
Prepayments	42.9	23.9
Accrued income	8.0	11.0
Other taxation and social security	11.5	0.3
	203.1	236.4
Non-current:		
Construction contract retentions	24.1	32.9
	24.1	32.9

21 Inventories

	2021 £m	2020 £m
Raw materials and consumables	14.9	14.1
Land and work in progress held for development	39.1	45.2
Other work in progress	0.7	0.7
	54.7	60.0

As at 30 June 2021, £2.8m of provisions are held against inventory relating to land and work in progress for development (2020: £9.4m).

22 Net cash/(debt)

	2021 £m	2020 £m
Cash and cash equivalents – bank balances and cash in hand	391.2	413.9
Borrowings due within one year	(38.2)	(61.6)
Borrowings due after one year	(362.3)	(689.8)
Impact of cross-currency hedging	12.3	27.2
Net cash/(debt)	3.0	(310.3)

Average month-end net debt was £431.9m (2020: £435.6m). Net debt excludes lease liabilities.

Cash and cash equivalents are subject to Group-wide cash pooling arrangements. On a gross basis, cash and cash equivalents were £1,411.7m (2020: £1,897.5m) and overdrafts were £1,020.5m (2020: £1,483.6m).

Cash and cash equivalents include £75.1m (2020: £63.4m) being the Group's share of cash and cash equivalents held by joint operations and £43.2m (2020: £43.5m) of bank balances that are not part of the Group-wide cash pooling arrangement.

Information on borrowings is detailed in note 30.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

22 Net cash/(debt) continued

(a) Reconciliation of working capital between the consolidated balance sheet and consolidated cash flow statement

	2021					2020				
	Inventories £m	Trade and other receivables £m	Contract assets £m	Trade and other payables £m	Provisions £m	Inventories £m	Trade and other receivables £m	Contract assets £m	Trade and other payables £m	Provisions £m
1 July balance sheet	60.0	269.3	278.5	(1,004.0)	(72.3)	217.9	401.9	491.2	(1,350.5)	(90.3)
30 June balance sheet	54.7	227.2	366.4	(1,133.0)	(47.8)	60.0	269.3	278.5	(1,004.0)	(72.3)
Movement per balance sheet	(5.3)	(42.1)	87.9	(129.0)	24.5	(157.9)	(132.6)	(212.7)	346.5	18.0
Transfers to and from assets held for sale	1.4	(1.0)	(1.4)	(0.5)	–	113.7	22.2	0.5	(65.0)	(11.1)
Forward funding interest	–	–	8.8	–	–	–	–	–	–	–
Disposal of subsidiary	–	–	–	15.4	6.5	–	–	–	1.2	–
Discount unwind ¹	–	–	–	0.8	0.3	–	–	–	(0.9)	1.5
Unpaid adviser fees in respect of the equity raise ²	–	–	–	6.1	–	–	–	–	–	–
Other	–	0.1	–	6.5	–	–	2.3	–	(3.2)	(4.4)
Movement per cash flow statement	(3.9)	(43.0)	95.3	(100.7)	31.3	(44.2)	(108.1)	(212.2)	278.6	4.0

¹ Discount unwind primarily relates to onerous loss-making contracts and deferred consideration.

² Unpaid adviser fees of £6.1m in respect of the equity raise have been reclassified from trade payables to issue of shares net of transaction costs on the cash flow statement.

(b) Reconciliation of movements in net borrowings

	Cash and cash equivalents £m	Borrowings due within one year £m	Borrowings due after one year £m	Impact of cross-currency hedging £m	Total £m
Net borrowings as at 1 July 2019	311.7	(30.3)	(473.6)	25.0	(167.2)
Cash flows	97.8	30.3	(274.7)	–	(146.6)
Transfers	–	(61.6)	61.6	–	–
Foreign exchange movements	4.4	–	(3.1)	2.2	3.5
Net borrowings as at 30 June 2020	413.9	(61.6)	(689.8)	27.2	(310.3)
Cash flows	(19.6)	61.6	275.8	–	317.8
Transfers	–	(38.2)	38.2	–	–
Foreign exchange movements	(3.1)	–	13.5	(14.9)	(4.5)
Net borrowings as at 30 June 2021	391.2	(38.2)	(362.3)	12.3	3.0

(c) Free cash flow

	Notes	2021 £m	2020 ¹ £m
Net debt at 1 July	22	(310.3)	(167.2)
Net cash/(debt) at 30 June	22	3.0	(310.3)
Decrease/(increase) in net debt		313.3	(143.1)
Adjusted for:			
Payments in respect of adjusting items	5	72.1	93.5
Pension deficit payments	9	37.0	25.0
Acquisitions and disposals	33	(120.8)	(14.1)
Equity raise	27	(224.8)	–
Discontinued operations	23	11.4	41.5
Other items		4.4	(11.1)
Free cash flow		92.6	(8.3)

¹ £7.7m has been reallocated from other items to payments in respect of adjusting items in the comparatives in order to align with other notes. There has been no change to the free cash flow number.

23 Assets held for sale and discontinued operations

(a) Assets held for sale

The Group's investment in its subsidiary Kier Living was classified as held for sale at 30 June 2020. The disposal was completed on 28 May 2021. See note 33 for further details.

The assets and liabilities of Pure Recycling Warwick Limited were presented as held for sale at 30 June 2020. As at 30 June 2021, management do not believe the classification criteria has been met and have therefore ceased classifying the asset as held for sale, resulting in a £3.0m credit to adjusting items in the income statement.

	2021 £m	2020 £m
Assets of disposal group classified as held for sale		
Investments in and loans to joint ventures	–	52.2
Inventories	–	114.7
Trade and other receivables	–	22.2
Other assets	–	7.6
Total	–	196.7
Liabilities of disposal group classified as held for sale		
Trade and other payables	–	(59.9)
Other liabilities	–	(21.8)
Total	–	(81.7)

(b) Results of discontinued operations

Kier Living

Results for Kier Living for the period up to disposal are classified as discontinued.

	2021 £m	2020 £m
Results of discontinued operations		
Revenue	98.3	79.9
Share of post-tax results of joint ventures	12.2	7.8
Operating costs	(105.2)	(93.1)
Operating profit/(loss)	5.3	(5.4)
Finance costs ¹	(5.1)	(7.3)
Profit/(loss) before tax and adjusting items	0.2	(12.7)
Tax	(0.5)	(0.1)
Loss for the year before adjusting items	(0.3)	(12.8)
Adjusting items net of tax (note 5) ²	(24.3)	(88.6)
Loss from discontinued operations after tax	(24.6)	(101.4)

¹ Includes interest payable to the continuing Group of £2.3m (2020: £5.6m).

² Includes £nil (2020: £1.4m) of share of post-tax results of joint ventures.

	2021 £m	2020 £m
Cash flows from discontinued operations		
Operating cash outflows	(24.9)	(60.9)
Investing cash inflows	8.4	20.9
Financing cash inflows/(outflows) ¹	74.6	(11.0)
Total cash flows including intercompany transactions	58.1	(51.0)
Intercompany cash flows	(69.5)	9.5
Total cash flows	(11.4)	(41.5)

¹ The cash flows include intercompany transactions, primarily the Group repaying Kier Living's overdraft of £72.7m prior to its disposal.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

24 Leases

(a) Group as a lessee

The Group has lease contracts for various properties, and items of plant, machinery, vehicles and other equipment used in its operations and for administration of the Group's business. Leases of properties have durations of between one and 44 years. Leases of plant and machinery and other equipment generally have lease terms between one and three years, while motor vehicles generally have lease terms between three and six years.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

A number of property leases contain extension or termination options. In these circumstances, the Group makes a judgement about the period for which it is reasonably certain to lease the property.

The Group's accounting policies for leases are set out in note 1.

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The expense included in the income statements relating to these leases was £86.1m (2020: £71.4m). The assets leased under short-term leases are predominantly small items of plant and equipment and therefore are also of low value. The utilisation of these assets varies depending on the nature and levels of the Group's activities.

(b) Right-of-use assets

Set out below are the carrying amounts of right-of-use assets recognised in respect of the Group's leases and the movements during the year:

	Land and buildings £m	Motor vehicles £m	Plant and equipment £m	Total £m
At 1 July 2019	136.4	27.9	12.0	176.3
Additions	4.9	6.3	9.3	20.5
Depreciation	(13.5)	(14.4)	(7.9)	(35.8)
Reversal of impairment ¹	3.5	–	–	3.5
Impairment ²	(13.7)	–	–	(13.7)
Transferred to investment properties ²	(42.1)	–	–	(42.1)
Disposals	(5.8)	–	(2.0)	(7.8)
At 30 June 2020	69.7	19.8	11.4	100.9
Additions	5.7	14.0	14.8	34.5
Depreciation	(9.8)	(14.1)	(9.8)	(33.7)
Disposals	(1.0)	(0.1)	(4.1)	(5.2)
At 30 June 2021	64.6	19.6	12.3	96.5

¹ In FY19, the Group provided for an onerous lease contract in respect of a property in Cavendish Place, London, as the property was unoccupied with little prospect of being sublet. On transition to IFRS 16 on 1 July 2019, the onerous lease provision was reclassified as an impairment of the associated right-of-use asset. In FY20 the Directors made the decision to reoccupy Cavendish Place and vacate the Group's office in Foley Street, London. This resulted in a reversal of the impairment amount relating to Cavendish Place.

² In FY20, the Group vacated its Foley Street property which resulted in an impairment of the associated right-of-use asset in the year. As the property was no longer occupied by the Group and was being held for the purpose of earning rentals, the asset was reclassified as an investment property in FY20.

(c) Lease liabilities

	2021 £m	2020 £m
Current	27.4	33.1
Non-current	136.4	139.8
	163.8	172.9

The maturity profile of the contractual cash flows associated with the lease liabilities is presented in note 30.

The interest expense in respect of lease liabilities is included within finance costs in the income statement and is disclosed in note 7.

(d) Amounts recognised in the cash flow statement

	2021 £m	2020 £m
Principal elements of lease payments	39.6	40.4
Interest paid	6.7	7.2
Total cash outflow for leases ¹	46.3	47.6

¹ Excluding cash flows relating to short-term and low-value assets for which the recognition exemption has been taken.

25 Trade and other payables

	2021 £m	2020 £m
Current:		
Trade payables ¹	330.3	255.8
Sub-contract retentions	39.1	35.0
Other taxation and social security ²	144.2	131.4
Other payables	47.3	57.5
Accruals	531.8	477.1
Deferred income	0.4	0.7
	1,093.1	957.5
Non-current:		
Trade payables	14.1	14.2
Sub-contract retentions	25.8	32.3
	39.9	46.5

¹ Included within the trade payables balance is £79.1m (2020: £125.5m) relating to payments due to suppliers who are on bank-supported supply chain finance arrangements.

² As at 30 June 2021, there was total tax deferred under the Government's COVID-19 support schemes of £18.8m (2020: £79.8m). This comprises £18.8m payable by 28 January 2022 (2020: £25.1m) of VAT deferred in accordance with HMRC guidance, and £nil (2020: £54.7m) of a Time to Pay agreement with HMRC. VAT payable to HMRC was £120.9m (2020: £69.5m), an increase from the prior year as a result of implementing the new VAT regulations for the Domestic Reverse Charge.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

26 Provisions

	Insurance claims £m	Restoration of mining sites £m	HSE regulatory £m	Onerous contracts £m	Redundancy, site closure & dilapidations £m	Warranty, rectification and other contractual obligations £m	Total £m
At 1 July 2019	19.7	3.4	1.4	35.9	8.2	21.7	90.3
Transition to IFRS 16	–	–	–	(4.4)	–	–	(4.4)
Transferred to asset held for sale	–	–	–	–	–	(9.7)	(9.7)
Transferred to trade payables	–	–	–	(13.9)	–	–	(13.9)
Charged/(credited) to income statement	3.6	0.8	1.8	(4.5)	29.5	34.7	65.9
Utilised	–	(1.8)	–	(11.2)	(31.8)	(12.4)	(57.2)
Unwinding of discount	–	–	–	1.3	–	–	1.3
At 30 June 2020	23.3	2.4	3.2	3.2	5.9	34.3	72.3
Transfers between provision classes	–	–	–	3.7	(1.0)	(2.7)	–
Transfers to payables	–	–	–	–	–	(10.1)	(10.1)
(Credited)/charged to income statement	(1.5)	0.3	(0.7)	(0.9)	1.6	0.7	(0.5)
Utilised	–	(1.9)	–	(0.8)	(2.6)	(8.4)	(13.7)
Unwinding of discount	–	–	–	0.3	–	–	0.3
Currency realignment	–	–	–	–	(0.5)	–	(0.5)
At 30 June 2021	21.8	0.8	2.5	5.5	3.4	13.8	47.8

Insurance provisions are held in the Group's insurance captive in respect of legal and other disputes in various Group companies.

Mining provisions of £0.8m (2020: £2.4m) represent the cost of restoration of opencast mining sites.

HSE regulatory provisions are in respect of potential fines arising from changes to safety, health and environmental legislation and regulation.

Onerous contracts provisions are for loss-making contracts that the Group is legally obligated to complete.

Redundancy and dilapidations provisions are in respect of redundancy costs and office closures. Site closure provisions relate to adoption costs payable to local authorities on completion of development sites.

Warranty and rectification provisions are for potential claims against work completed by the Group, and other contractual obligations are primarily end of service costs associated with the Group's overseas workforce.

It is anticipated that the amounts provided will be utilised as follows:

	2021 £m	2020 £m
Due within one year	14.9	20.8
Due after one year	32.9	51.5
	47.8	72.3

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain and as such they are classified as due after one year.

Future outflows in respect of other provisions are expected to occur over the next 10 years.

27 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2021		2020	
	Number	£m	Number	£m
Authorised, issued and fully paid ordinary shares of 1 pence each	446,165,699	4.5	162,115,870	1.6

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Firm Placing and Placing and Open Offer

On 18 June 2021 the Group issued new share capital by way of:

- › a Firm Placing of 141,851,386 Firm Placing Shares;
- › a Placing and Open Offer of 141,851,386 Open Offer Shares; and
- › Director Subscriptions of 347,057 Subscription Shares.

All of the above shares were issued at £0.85 per share. The total new shares of 284,049,829 generated proceeds of £207.8m after deducting costs of £33.6m, of which £22.7m were deducted from equity. Of these costs, £6.1m remain unpaid as at 30 June 2021.

Kier Group plc was transferred 100 fixed rate redeemable preference shares in its subsidiary company, Kite (Jersey) Limited, which were subsequently redeemed for cash. Following the receipt of the cash proceeds of the capital raise through this cashbox structure, the Group obtained merger relief for the new shares issued by Kier Group plc. The excess of the net proceeds received over the nominal value of the new shares has been transferred to the merger reserve.

Cash flow hedge reserve

This reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred, net of any related deferred tax.

Translation reserve

This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS 1, this reserve was set to nil at 1 July 2004.

Merger reserve

The brought forward merger reserve of £134.8m arose on the shares issued at a premium to acquire May Gurney on 8 July 2013. The movement in the year of £215.8m relates to the issue of new share capital as described above.

28 Share-based payments

The Group operates a number of share-based payment schemes for eligible employees as described below.

On 18 June 2021, the Group issued new share capital at a discount to market value, by way of a Firm Placing, a Placing and Open Offer, and Director Subscriptions. The number of options and option prices for participants in the Group's share-based payments schemes were adjusted for the effect of the Open Offer but not the Firm Placing or Director Subscriptions that existing shareholders were unable to participate in.

Sharesave Scheme

Options over the Company's ordinary shares at 30 June 2021 were as follows:

Date of grant	Sharesave Scheme 1 November 2017	Sharesave Scheme 1 November 2018	Sharesave Scheme 13 November 2019	Sharesave Scheme 15 February 2021	Total
Number of awards outstanding at 30 June 2021					
Directors	–	–	–	–	–
Employees ¹	1,739	191,932	5,353,164	9,879,199	15,426,034
	1,739	191,932	5,353,164	9,879,199	15,426,034
Exercise price (pence) ¹	826.4	647.2	86.4	56.5	

¹ Where the options were granted before the rights issue that completed on 20 December 2018 and/or the share issue that completed on 18 June 2021, the numbers of options and the exercise prices have been adjusted to take account of the dilution resulting from the new shares.

Options to acquire shares in the capital of Kier Group plc have been granted to eligible employees who enter into a Sharesave (SAYE) contract. The number of options granted to each participating employee are the number of shares which have an aggregate option price not exceeding the projected proceeds of the employee's Sharesave contract. Participation in the Kier Sharesave Scheme is offered to all employees of the Group who have been employed for a continuous period determined by the Board. Under the Sharesave contract, participating employees save a regular sum each month for three years up to a maximum of £500 per month.

8,634,038 options were granted in the year (2020: 7,199,823) under the Sharesave Scheme, which will all be equity settled.

No Sharesave Scheme options were exercised during the year (2020: none).

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

28 Share-based payments continued

Conditional Share Award Plan

Awards over the Company's ordinary shares at 30 June 2021 were as follows:

Date of grant	CSAP award 23 October 2017	CSAP award 22 October 2018	Total
Number of awards outstanding at 30 June 2021			
Directors	–	–	–
Employees ¹	4,387	654,402	658,789
	4,387	654,402	658,789
Exercise price (pence)	nil	nil	

¹ The numbers of options have been adjusted to take account of the dilution resulting from the rights issue that completed on 20 December 2018 and the share issue that completed on 18 June 2021.

In 2017, the Group established a Conditional Share Award Plan ('CSAP') under which senior employees 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.

No new awards were granted under the CSAP in the year (2020: nil).

515,093 awards vested under the CSAP in the year (2020: none). In accordance with the rules of the scheme, a further 72,562 shares were provided to recipients of the vesting CSAP shares, equivalent to the dividends that would have been received during the vesting period (2020: no dividend equivalent shares).

Long-Term Incentive Plan

Awards over the Company's ordinary shares at 30 June 2021 were as follows:

Date of grant	LTIP award 28 Oct 2019	LTIP award 16 March 2020	LTIP award 18 December 2020	Total
Number of awards outstanding at 30 June 2021				
Directors ¹	2,040,447	–	2,095,166	4,135,613
Employees ¹	9,906,091	602,577	17,200,856	27,709,524
	11,946,538	602,577	19,296,022	31,845,137
Exercise price (pence)	nil	nil	nil	

¹ Where the options were granted before the rights issue that completed on 20 December 2018 and/or the share issue that completed on 18 June 2021, the number of options has been adjusted to take account of the dilution resulting from the new shares.

The Group has established a Long-Term Incentive Plan ('LTIP') under which Directors and senior employees can receive awards of shares. Awards made under the 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. Participants are entitled to receive dividend equivalents on these awards. Awards under the LTIP are all equity settled. The awards made to Directors are subject to a two-year post vesting holding period and malus and clawback provisions.

No LTIP awards were exercised during the year (2020: nil).

17,856,246 options were granted in the year (2020: 13,741,092) under the LTIP.

Shares held in trusts

The CSAP and LTIP awards, which are taken as shares, are intended to be satisfied from shares held by the Kier Group 1999 Employee Benefit Trust and May Gurney Group Trustees Ltd Employee Share Ownership Trust or the issue of new shares. The shares held by the trusts are accounted for as a deduction from equity within retained earnings. The movements in the number and historical cost value of shares held by the trusts are as follows:

	2021		2020	
	Number of shares	Value £m	Number of shares	Value £m
At 1 July	306,317	2.3	306,317	2.3
Acquired during the year	990,303	0.5	–	–
Issued in satisfaction of share scheme awards	(515,093)	(0.2)	–	–
Issued in satisfaction of dividend equivalents for share scheme awards	(72,562)	–	–	–
At 30 June	708,965	2.6	306,317	2.3

The market value of these shares at 30 June 2021 was £0.9m (2020: £0.3m).

The shares acquired by the trusts in the year are reflected in the statement of changes in equity as a purchase of own shares of £0.5m.

Further description of the above share schemes and the terms and conditions of each scheme are included in the Directors' remuneration report on pages 98 to 117.

Fair value of share-based payments

The fair value per option granted has been calculated using the Black-Scholes model for all options apart from the total shareholder return (TSR) element of the LTIP which is based on a Stochastic model. For awards made to the Directors which are subject to a two-year holding period post vesting, the Finnerty model is used. The following assumptions were used in calculating the fair values:

Sharesave Scheme

Date of grant	1 November 2018	1 November 2018	13 November 2019	15 February 2021
Share price at grant (pence)	1055.0	924.0	86.5	77.5
Exercise price (pence) – at grant	983.0	770.0	101.0	66.0
Exercise price (pence) – adjusted for rights/share issues	826.3	647.2	86.4	56.5
Option life (years)	3.0	3.0	3.0	3.0
Expected volatility	24.9%	28.1%	68.5%	80.2%
Dividend yield	6.4%	7.3%	0.0%	0.0%
Risk-free interest rate	0.6%	0.8%	0.5%	0.0%
Value per option (pence) – at grant	113.1	137.0	37.0	44.6
Value per option (pence) – adjusted for rights/share issues	95.1	115.2	31.7	38.1

Conditional Share Award Plan

Date of grant	23 October 2017	22 October 2018
Share price at grant (pence)	1,063.0	886.0
Exercise price (pence)	nil	nil
Option life (years)	3.0	3.0
Value per option (pence) – at grant	1,063.0	886.0
Value per option (pence) – adjusted for rights/share issues	1,044.6	744.8

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

28 Share-based payments continued

Long-Term Incentive Plan

Date of grant	28 October 2019	28 October 2019 (Directors)	16 March 2020	18 December 2020	18 December 2020 (Directors)
Share price at grant (pence)	116	116	80	81.0	81.0
Exercise price (pence)	nil	nil	nil	nil	nil
Option life (years)	3.0	3.0	3.0	3.0	3.0
Holding period (years)	n/a	2.0	n/a	n/a	2.0
Expected volatility	74.7%	85.5%	74.7%	90.7%	92.4%
Risk-free interest rate	0.5%	0.5%	0.5%	0.0%	0.0%
Value per option (pence) – at grant					
– TSR element (25%)	76.0	66.0	52.0	58.4	50.6
– EPS/AOP (50%) and Net Debt:EBITDA (25%) elements	116.0	101.0	80.0	81.0	70.1
Value per option (pence) – adjusted for rights/share issues					
– TSR element	65.0	56.5	44.5	50.0	43.3
– EPS/AOP and Net Debt:EBITDA elements	99.2	86.4	68.4	69.2	59.9

The value per option represents the fair value of the option less any consideration payable.

The fair value of the TSR element incorporates an assessment of the number of shares that will vest, as the performance conditions are market conditions under IFRS 2 'Share-based Payments'.

The performance conditions linked to adjusted EPS, adjusted operating profit ('AOP') and the net debt to earnings before interest, tax, depreciation and amortisation ratio (Net Debt:EBITDA) are non-market conditions under IFRS 2. Therefore, the fair value of these elements do not include an assessment of the number of shares that will vest. Instead, the amount charged is based on the fair values factored by a 'true-up' for the number of awards that are expected to vest.

The expected volatility is based on historical volatility over the period of time commensurate with the expected award term immediately prior to the date of grant. The risk-free rate of return is the yield on UK Government securities over a term consistent with the expected option life.

An amount of £7.0m relating to share-based payments has been recognised in the income statement as employee costs (2020: £5.4m). Included in other payables is an amount of £1.0m (2020: £0.3m) relating to provisions for employer's national insurance in respect of share-based payments expected to vest in the future.

Summary of movements in the number of options

A reconciliation of option movements is shown below:

	2021		2020	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 July	20,446,809	46.9p	5,149,398	323.0p
Granted	26,490,284	21.5p	20,940,915	34.7p
Lapsed or forfeited	(5,429,098)	70.6p	(5,643,504)	253.6p
Exercised	(515,093)	–	–	–
Adjustment for share issue	6,937,058	–	–	–
Outstanding at 30 June	47,929,960	23.9p	20,446,809	46.9p
Exercisable at 30 June	6,126	234.6p	–	–

The options outstanding at 30 June 2021 have a weighted average remaining contractual life of 2.08 years (2020: 2.26 years).

29 Guarantees, contingent liabilities and contingent assets

The Company has given guarantees and entered into counter-indemnities in respect of bonds relating to certain of the Group's own contracts. The Company has also given guarantees in respect of certain contractual obligations of its subsidiaries and joint ventures, which were entered into in the normal course of business, as well as certain of the Group's other obligations (for example, in respect of the Group's finance facilities and its pension schemes). Financial guarantees over the obligations of the Company's subsidiaries and joint ventures are measured at fair value. The fair value measurement is based on the premium received from the joint venture or the differential in the interest rate of the borrowing including and excluding the guarantee. Performance guarantees are treated as a contingent liability until such time as it becomes probable that payment will be required under its terms.

Provisions are made for the Directors' best estimate of known legal claims, investigations and legal actions relating to the Group which are considered more likely than not to result in an outflow of economic benefit. If the Directors consider that a claim, investigation or action relating to the Group is unlikely to succeed, no provision is made. If the Directors cannot make a reliable estimate of a potential, material obligation, no provision is made but details of the claim are disclosed.

As at 30 June 2021, the Group had contingent assets of £4.5m (2020: £12.4m) in relation to claims against third parties for the reimbursement of costs on construction contracts. Under IAS 37 these amounts may only be recognised when the economic benefit arising from the claims is virtually certain. It is probable that these amounts will be recognised in future periods when the uncertainty over their recoverability has been removed.

As at 30 June 2021, the Group had no contingent liabilities (2020: £nil).

30 Financial instruments

The following table summarises the Group's financial instruments as at 30 June 2021:

	2021			2020		
	Loans and receivables at amortised cost, cash and cash equivalents £m	Financial liabilities at amortised cost £m	Derivatives £m	Loans and receivables at amortised cost, cash and cash equivalents £m	Financial liabilities at amortised cost £m	Derivatives £m
Financial assets						
Trade and other receivables (less prepayments)	184.3	–	–	245.4	–	–
Cash and cash equivalents	391.2	–	–	413.9	–	–
Equity loans provided to joint ventures	115.9	–	–	112.8	–	–
Other financial assets	–	–	13.4	–	–	30.0
Total	691.4	–	13.4	772.1	–	30.0
Financial liabilities						
Borrowings	–	(400.5)	–	–	(751.4)	–
Lease liabilities	–	(163.8)	–	–	(172.9)	–
Trade and other payables ¹	–	(988.4)	–	–	(871.9)	–
Other financial liabilities	–	–	–	–	–	–
Total	–	(1,552.7)	–	–	(1,796.2)	–
Net	691.4	(1,552.7)	13.4	772.1	(1,796.2)	30.0

¹ Trade and other payables exclude other taxes and social security and deferred income.

Capital risk management

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to optimise the capital structure in order to minimise the cost of capital whilst maintaining a strong balance sheet to support business development and tender qualification. The Group's capital management strategy is to use a blend of capital types with different risk, return and maturity profiles to support the operating divisions and deliver the Group's capital management objectives.

During the year, the Group has taken action to strengthen the balance sheet and reduce the level of debt. This is in line with the capital risk management strategy announced in 2019. The disposal of Kier Living and the new equity raise, both of which were completed in Q4, represent the final steps in the completion of the strategic review with new medium-term financial targets communicated. These medium-term targets focus on volume growth, increased profitability and a positive cash generation. They also include an expected return to a sustainable dividend policy.

The capital structure of the Group comprises: equity, consisting of share capital, share premium, retained earnings and other reserves as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 22 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions typically require a pre-tax annualised return of at least 15.0% to ensure such investments are value enhancing for shareholders.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

30 Financial instruments continued

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to credit risk, market risk and liquidity risk. The overall aim of the Group's financial risk management policies is to minimise any potential adverse effects on financial performance and net assets.

The Group's treasury team manages the principal financial risks within policies and operating limits approved by the Board. The treasury function is not a profit centre and does not enter into speculative transactions. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates and some commodity prices.

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and interest rate and currency hedges.

Policies and procedures exist to ensure that customers have an appropriate credit history. The Group's most significant clients are public or regulated industry entities which generally have high credit ratings or are of a high credit quality due to the nature of the client.

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within acceptable limits. At the balance sheet date there were no significant concentrations of credit risk.

Trade and other receivables and contract assets included in the balance sheet are stated net of expected credit loss (ECL) provisions which have been calculated using a provision matrix grouping trade receivables and contract assets on the basis of their shared credit risk characteristics.

An analysis of the provision held against trade receivables is set out below:

	2021 £m	2020 £m
Provision as at 1 July	4.2	1.1
Credited to the income statement	(1.3)	(0.3)
Utilised in the year	(0.6)	(0.3)
Charged to the income statement	–	3.7
Provision as at 30 June	2.3	4.2

There were £21.5m (2020: £29.6m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £7.7m (2020: £14.4m) had been received by the end of August 2021. There are no indications as at 30 June 2021 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and unprovided. The proportion of trade receivables at 30 June 2021 that were overdue for payment was 42% (2020: 35%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Infrastructure Services	8 days (2020: 4 days)
Construction	10 days (2020: 16 days)
Property	34 days (2020: 16 days)

Overall, the Group considers that it is not exposed to significant credit risk.

Equity loans to joint ventures of £115.9m (2020: £112.8m) have been compared to the future cash flows and net assets of the joint venture to ensure that they are still expected to be fully recoverable.

Market risk

Interest rate risk

The Group has borrowing facilities to finance short-term working capital requirements and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over LIBOR. The Group's borrowings, excluding the effect of derivatives, can be analysed as follows:

	2021 £m	2020 £m
Fixed rate	161.8	249.4
Variable rate	241.6	503.9
Cost of raising finance	(2.9)	(1.9)
	400.5	751.4

The Group's variable rate borrowings are subject to a margin over SONIA. In addition, one of the Group's joint ventures has entered into interest rate swaps in order to mitigate significant interest rate risk.

Interest rate risk also arises on the Group's borrowings where they are not at fixed interest rates. A 50 basis point increase/decrease in the interest rate would lead to a £1.3m increase (2020: £2.4m) / £1.3m decrease (2020: £2.4m) in the Group's net finance cost.

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant. Where significant foreign currency exposures are identified, these are hedged using forward foreign exchange contracts or swaps.

Changes in foreign exchange rates affect the carrying amount of the liability relating to foreign currency denominated debt on the Group's balance sheet. The utilisation of derivatives ensures that the movement is recognised in other comprehensive income rather than profit and loss. A 5% increase/decrease in the US dollar to sterling exchange rate combined with a 5% increase/decrease in the euro to sterling exchange rate would lead to a £4.7m decrease (2020: £6.1m)/£4.9m increase (2020: £6.4m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

Liquidity risk

The Group's policy on liquidity risk is to ensure the sufficient borrowing facilities are available to fund operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a syndicate of relationship banks and established investors, and in the case of a number of the loan notes, in the form of unsecured committed borrowing facilities. The amount of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Derivative financial instruments

During 2013 the Group entered into three cross-currency swaps to hedge the currency risk on US dollar-denominated loan, nominal value US\$28.0m. During 2014 the Group entered into four cross-currency swaps to hedge the currency risk on a US dollar-denominated loan, nominal value US\$116.0m. During 2016 the Group entered into two cross-currency swaps to hedge the currency risk on a euro-denominated loan, nominal value €20.0m, and three interest rate swaps to hedge the interest rate risk on GBP-denominated loans, nominal value £65.5m. The Group has assessed the effectiveness of these swaps and concluded that they are 100% effective. Therefore, no amount in relation to hedge ineffectiveness has been charged or credited to the income statement in relation to any cross-currency or interest rate swap.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instruments:

	Expected cash flows				
	Fair value £m	Total £m	0–1 years £m	1–2 years £m	2–5 years £m
Continuing operations					
Cross-currency swaps: asset					
Gross settled inflows		109.5	19.1	26.3	64.1
Gross settled outflows		(95.8)	(16.7)	(23.4)	(55.7)
	13.4	13.7	2.4	2.9	8.4

In addition to the above, one of the Group's property joint ventures has entered into an interest rate derivative as a means of hedging interest rate risk. The interest-bearing debtor and associated interest rate derivative with this joint venture has a term of less than two years remaining and is without recourse to the Group. At 30 June 2021, the aggregate amount outstanding on this interest-bearing debt against which an interest rate derivative is held is £15.0m (2020: £31.5m). The Group's share of the total net fair value liability of this interest rate derivative at 30 June 2021 amounted to £0.3m (2020: £0.5m) which, together with the related deferred tax asset of £nil (2020: £nil), have met the criteria for hedge accounting.

Financial assets

	2021 £m	2020 £m
Loans and receivables at amortised cost, cash and cash equivalents:		
Cash and cash equivalents	391.2	413.9
Trade and other receivables (including £24.1m due after more than one year (2020: £32.9m)) – excluding prepayments	184.3	245.4
Equity loans to joint ventures	115.9	112.8
	691.4	772.1

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

30 Financial instruments continued

Financial liabilities – analysis of maturity dates

At 30 June 2021, the Group had the following financial liabilities at amortised cost together with the maturity profile of their contractual cash flows:

	Continuing operations			
	Trade and other payables ¹ £m	Borrowings £m	Lease liabilities £m	Total £m
30 June 2021				
Carrying value	988.4	400.5	163.8	1,552.7
Contractual cash flows				
Less than one year	948.5	35.3	33.1	1,016.9
One to two years	39.9	51.2	23.7	114.8
Two to three years	–	9.5	18.0	27.5
Three to four years	–	307.4	13.9	321.3
Four to five years	–	–	11.6	11.6
Over five years	–	–	113.9	113.9
	988.4	403.4	214.2	1,606.0
30 June 2020				
Carrying value	871.9	751.4	172.9	1,796.2
Contractual cash flows				
Less than one year	839.6	74.9	38.6	953.1
One to two years	32.3	44.9	24.8	102.0
Two to three years	–	555.1	16.4	571.5
Three to four years	–	4.5	13.4	17.9
Four to five years	–	101.4	11.5	112.9
Over five years	–	–	122.9	122.9
	871.9	780.8	227.6	1,880.3

¹ Trade and other payables exclude other taxes and social security and deferred income.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities.

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Group uses cross-currency and interest rate swaps for hedging. These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the bank counterparties using mid-market mark to market valuations for trades at the close of business on 30 June 2021.

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2021:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	13.4	–	13.4

There were no transfers between levels 1 and 2 during the year ended 30 June 2021.

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2020:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets/(liabilities)				
Derivatives used for hedging – Cross-currency swaps	–	30.4	–	30.4
Derivatives used for hedging – Interest rate swaps	–	(0.4)	–	(0.4)

There were no transfers between levels 1 and 2 during the year ended 30 June 2020.

Borrowings and borrowing facilities

As at 30 June 2021, the Group had the following unsecured committed facilities after the effect of derivatives:

- › Revolving credit facility of £535.0m (2020: £670.0m), at a margin over SONIA, due for renewal in January 2025, £241.6m drawn at 30 June 2021 (2020: £503.9m);
- › Four loan notes, principal amounts of £45.0m, US\$20.0m, £47.0m and US\$100.1m, with fixed coupons of between 4.1% and 5.4%, repayable in three repayments, December 2022, November 2021 and January 2025, fully drawn at 30 June 2021, totalling £141.7m at hedged rates (2020: £152.6m);
- › Principal amount of €10.0m (2020: €20.0m), with fixed coupon of 2.3%, repayable in May 2023, fully drawn at 30 June 2021 totalling £7.9m at hedged rates (2020 : £15.7m); and
- › As at 30 June 2020, the Group had debt of £53.5m at a margin over LIBOR with a maturity date of May 2021. This was repaid during the year.

In addition, the Group has unsecured overdraft facilities of £18.0m (2020: £20.0m), at a margin over base rate, repayable on demand, undrawn at 30 June 2021 and 2020.

Included within borrowings are capitalised loan fees of £2.9m (2020: £1.9m).

The committed facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to EBITDA and interest cover. The Group has complied with these covenants throughout the period.

As part of the Group's disposal of Kier Living and the successful equity raise, the Group agreed revised debt facilities with its external debt providers.

These revised facilities included amendments to the existing covenant requirements. From 30 June 2021, the financial covenants were revised to:

- › Remove quarterly covenant testing requirements;
- › Remove the consolidated net worth covenant;
- › Remove the period end minimum liquidity covenant;
- › Amend the leverage ratio test levels to be set at 4.00:1 for the June 2021 testing date, 3.50:1 for the December 2021 testing date, 3.00:1 for the June 2022, December 2022, June 2023 and December 2023 testing dates and 2.50:1 thereafter; and
- › Amend the interest coverage ratio test levels to be set at 3.00:1 for the June 2021 testing date, 3.50:1 for the December 2021 testing date and 4.00:1 thereafter.

As part of the Group's going concern review and review of the requirements of the viability statement, future forecasts were examined against these revised covenant requirements. Severe plausible downside scenarios were modelled to examine the likelihood of breach within the period of review. It has been concluded that after the application of mitigations which are in the control of the Directors to action, no plausible downside scenario would result in the Group breaching any of its revised covenants. In the most severe downside scenario, minimum headroom of 43% on the leverage ratio and 22% on the interest ratio is available throughout the period of review. At least £108m of available debt facilities are available in this most severe downside scenario.

Please see note 1 for further detail regarding the sensitivities modelled in this assessment

The Group repaid and reduced total available facilities by £189m (2020: £nil) in the year ended 30 June 2021.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

31 Financial and capital commitment

	2021 £m	2020 £m
Commitments for capital expenditure	1.8	–
	1.8	–

32 Related parties

Identity of related parties

The Group has a related party relationship with its joint ventures, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel

The Group's key management personnel are the Executive and Non-executive Directors as identified in the Directors' remuneration report on pages 98 to 117.

In addition to their salaries, the Group also provides non-cash benefits to Directors and contributes to their pension arrangements as disclosed on page 102. Key management personnel also participate in the Group's share option programme (see note 28).

Key management personnel compensation comprises:

	2021 £m	2020 £m
Emoluments as analysed in the Directors' remuneration report	2.9	2.2
Employer's national insurance contributions	0.4	0.3
Total short-term employment benefits	3.3	2.5
Share-based payment charge	0.6	1.8
	3.9	4.3

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 9.

Transactions with joint ventures

	2021 £m	2020 £m
Construction services and materials	163.8	237.1
Staff and associated costs	7.9	10.2
Management services	12.1	13.4
Interest on loans to joint ventures	1.2	0.8
Plant hire	1.4	1.4
	186.4	262.9

Equity loans due from joint ventures are analysed below:

	2021 £m	2020 £m
Solum Regeneration (Twickenham) LLP	16.2	14.5
Kier (Southampton) Investment Limited	12.2	10.0
Kier (Newcastle) Investment Ltd	11.1	10.1
Kier Trade City Holdco 1 LLP	10.1	17.6
Kier Richmond Holdings Limited	9.9	9.9
Solum Regeneration (Guildford) LLP	8.9	6.2
Watford Health Campus Partnership LLP	8.4	9.7
Solum Regeneration (Bishops) LLP	7.0	7.2
Kier Cornwall Street Holdings 1 LLP	6.5	6.5
Kier Cornwall Street Holdings 2 LLP	6.5	6.5
50 Bothwell Street Holdco 1 LLP	5.6	5.6
Kier Maidenhead Holdings 1 LLP	3.3	–
Winsford Holdings 1 LLP	2.4	2.4
Solum Regeneration (Kingswood) LLP	2.2	2.2
Solum Regeneration (Redhill) LLP	2.1	1.4
Solum Regeneration (Epsom) LP	1.5	1.4
Solum Regeneration (Maidstone) LLP	0.7	0.7
Solum Regeneration Holding 1 LLP	0.7	0.2
Solum Regeneration (Surbiton) LLP	0.4	0.3
Solum Regeneration Holding 2 LLP	0.2	0.2
Kier Cross Keys Holdco 1 LLP ¹	–	35.0
Kier Community Living Topco 1 LLP ¹	–	32.1
Easingwold Holdco 1 LLP ¹	–	4.7
Stokesley Holdco 1 LLP ¹	–	4.2
Driffield Holdco 1 LLP ¹	–	2.5
Solum Regeneration (Haywards) LLP	–	0.1
Solum Regeneration (Walthamstow) LLP	–	0.1
	115.9	191.3

¹ Joint ventures disposed of as part of the sale of Kier Living during the year, see note 33.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

32 Related parties continued

Trading balances and other loans due from/(to) joint ventures are analysed below:

	2021 £m	2020 £m
Kier Cornwall Street LLP	0.8	–
Winsford Devco LLP	0.8	–
Kier (Southampton) Investment Limited	0.4	0.3
Dragon Lane LLP	0.3	0.1
Watford Health Campus Partnership LLP	0.3	–
Hackney Schools for the Future 2 Limited	0.2	0.6
Team Van Oord Limited	0.1	–
Kier Richmond Limited	0.1	–
Kier Maidenhead LLP	(0.6)	–
Lysander Student Operations Limited	(0.6)	–
Kier Trade City LLP	(1.1)	0.1
Kier Community Living LLP ¹	–	12.7
Kier Cross Keys Dev LLP ¹	–	0.8
Stokesley Devco LLP ¹	–	0.6
Easingwold Devco LLP ¹	–	0.4
Driffield Devco LLP ¹	–	0.2
Black Rock Devco LLP ¹	–	0.1
	0.7	15.9

¹ Joint ventures disposed of as part of the sale of Kier Living during the year, see note 33.

33 Acquisitions and disposals

The Group completed the disposal of Kier Living during the year. The disposal represents one of the final milestones in management's strategy to simplify the Group and to create a strong, resilient and flexible balance sheet.

	2021 £m
Sale proceeds	110.0
Working capital adjustment ¹	10.8
Total consideration	120.8
Book value of net assets disposed of	(116.7)
Sale costs	(9.7)
Liabilities recognised on disposal ²	(6.5)
Loss on disposal	(12.1)

¹ The disposal was subject to a 'locked box' mechanism. The adjustment represents the movement in the Kier Living working capital since the 'locked box' date.

² As part of the disposal the Group retained some obligations to fulfil existing contracts. The Group recognised liabilities on disposal of Living which represent the costs of completing the outstanding work. In addition, a piece of land owned by Kier Limited was transferred to Kier Living on disposal, generating a Stamp Duty Land Tax liability.

In FY20, the Group disposed of its interest in Kier Hammersmith Holdco Limited, Strawberry Percy LLP and South West Hub with sales proceeds totalling £14.1m and a profit of £0.6m.

34 Subsidiaries and other undertakings

A full list of subsidiaries, branches, associated undertakings, and joint arrangements as at 30 June 2021 is detailed below. Unless stated otherwise, all undertakings are wholly owned and held indirectly by Kier Group plc.

Subsidiaries

Company name	Registered office ¹	Share class(es) held	% held by Group
2020 Liverpool Limited	1	Ordinary	100%
A C Chesters & Son Limited	1	Ordinary	100%
AK Student Living Limited	1	A Ordinary	100%
		B Ordinary	100%
Arena Central Developments LLP	1	–	100%
Arena Central Management Limited	1	A Ordinary	100%
			25% ³
Caribbean Construction Company Limited	2	Ordinary	100%
Caxton Integrated Services Holdings Limited	1	Ordinary	100%
ClearBOX Limited	1	Ordinary	75%
Dudley Coles Limited	1	Ordinary	100%
FDT (Holdings) Ltd	1	Ordinary	100%
FDT Associates Ltd	1	Ordinary A	100%
Gravesend Coldharbour Road Management Company Limited	1	Ordinary A	100%
		Ordinary B	100%
Heart of Wales Property Services Limited	3	Ordinary	50%
J L Kier & Company (London) Limited	1	Ordinary	100%
J L Kier & Company Limited	1	Ordinary	100%
Kier (Catterick) Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier (Kent) PSP Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier (Malaysia) SDN. BHD.	4	Ordinary	100%
Kier (NR) Limited	1	Ordinary	100%
Kier Asset Partnership Services Limited	1	Ordinary	100%
Kier Benefits Limited	1	Ordinary	100%
Kier Build Limited	1	Ordinary	100%
Kier Business Services Limited	1	Ordinary	100%
Kier Caribbean and Industrial Limited	1	Ordinary	100%
Kier CB Limited	1	Ordinary	100%
Kier Commercial Investments Limited	1	Ordinary	100%
Kier Commercial UKSC Limited	1	Ordinary	100%
Kier Construction Limited	1	Ordinary	100%
Kier Construction Limited	5	Ordinary	100%
Kier Construction LLC ⁹	6	Ordinary	49%
Kier Construction SA	7	Ordinary	100%
Kier Developments Limited	1	A Ordinary	100%
		B Ordinary	100%
		C Ordinary	100%
Kier Dormant Holdings Limited	1	Ordinary	100%
Kier Dubai LLC ⁹	8	Ordinary	49%
Kier Education Investments Limited	1	B Ordinary	100%
		M Ordinary	100%
Kier Education Services Limited	1	B Ordinary	100%
		M Ordinary	100%
Kier Energy Solutions Limited	1	Ordinary	100%
		A Ordinary	100%

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

34 Subsidiaries and other undertakings continued

Subsidiaries continued

Company name	Registered office ¹	Share class(es) held	% held by Group
Kier Ewan Limited	1	Ordinary	100%
Kier Facilities Services Limited	1	Ordinary	100%
Kier Finance & Treasury Holdings Limited	1	Ordinary	100%
Kier Finance Limited	1	Ordinary	100%
Kier Fleet Services Limited	1	Ordinary	100%
Kier Group Trustees Limited ²	1	Ordinary	100%
Kier Harlow Limited	1	A Ordinary B Ordinary	100% 100%
Kier Highways Limited	1	A Ordinary B Ordinary	100% 100%
Kier Holdco 2 Limited	1	Ordinary	100%
Kier Holdings Limited	1	Ordinary Irredeemable preference	100% 100%
Kier Infrastructure and Overseas Limited	1	Ordinary	100%
Kier Infrastructure and Overseas Limited – Hong Kong Branch			
Kier Infrastructure and Overseas Limited – Jamaica Branch			
Kier Infrastructure and Overseas Limited – Trinidad Branch			
Kier Infrastructure Pty Ltd	9	Ordinary	100%
Kier Insurance Management Services Limited	1	Ordinary	100%
Kier Integrated Services (Estates) Limited	1	Ordinary	100%
Kier Integrated Services (Holdings) Limited	1	Ordinary Deferred	100% 100%
Kier Integrated Services (Regional) Limited (in liquidation)	1	Ordinary	100%
Kier Integrated Services (Trustees) Limited	1	Ordinary	100%
Kier Integrated Services Group Limited	1	Ordinary	100%
Kier Integrated Services Limited	1	Ordinary	100%
Kier International (Investments) Limited	1	Ordinary	100%
Kier International Limited	1	Ordinary	100%
Kier International Limited – India Branch			
Kier International Limited – Jamaica Branch			
Kier International Limited	10	Ordinary	100%
Kier Islington Limited	1	Ordinary Islington	100% 100%
Kier Jamaica Development Limited	1	Ordinary	100%
Kier Limited ²	1	Ordinary	100%
Kier Management Consulting Limited	1	Ordinary A Ordinary B Ordinary	100% 100% 100%
Kier MBS Limited	1	Ordinary	100%
Kier Midlands Limited	1	Ordinary	100%
Kier Minerals Limited	1	Ordinary	100%
Kier Mining Investments Limited	1	Ordinary	100%
Kier National Limited	1	Ordinary	100%
Kier North Tyneside Limited ⁵	1	B Ordinary	100% 80% ³
Kier Overseas (Four) Limited	1	Ordinary	100%
Kier Overseas (Nine) Limited	1	Ordinary	100%
Kier Overseas (Seventeen) Limited	1	Ordinary	100%
Kier Overseas (Twenty-Three) Limited	1	Ordinary	100%

Subsidiaries continued

Company name	Registered office ¹	Share class(es) held	% held by Group
Kier Parkman Ewan Associates Limited	1	Ordinary A	100%
Kier Parkman GB Limited	1	Ordinary	100%
Kier Parkman ServiGroup Limited	1	Ordinary	100%
Kier Plant Limited	1	Ordinary	100%
Kier Professional Services Limited	1	Ordinary	100%
Kier Project Investment Limited	1	Ordinary	100%
Kier Property Developments Limited	1	Ordinary	100%
Kier Property Limited	1	Ordinary	100%
Kier Property Management Company Limited	1	Ordinary	100%
Kier Rail Limited	1	Ordinary	100%
Kier Recycling CIC	1	Ordinary	100%
Kier Services Limited	1	Ordinary	100%
Kier Sheffield LLP	1	–	80.1%
Kier South East Limited	1	Ordinary	100%
Kier Southern Limited	1	Ordinary	100%
Kier Stoke Limited	1	A Ordinary	100%
Kier Sydenham Limited	1	Ordinary	100%
Kier Thurrock Limited	1	Ordinary	100%
Kier Traffic Support Limited	1	Ordinary	100%
Kier UKSC LLP	1	–	100%
Kier Ventures Limited	1	Ordinary	100%
Kier Ventures UKSC Limited	1	Ordinary	100%
Kier York Street LLP	1	–	100%
Kite (Jersey) Limited (in liquidation) ^{2, 11}	11	Ordinary	100%
		Preference	100%
Liferange Limited	1	Ordinary	100%
McNicholas Construction (Holdings) Limited	1	Ordinary	100%
McNicholas Construction Services Limited	1	Ordinary	100%
MPHBS Limited	1	Ordinary	100%
MRBL Limited	1	Ordinary A	100%
		Ordinary B	100%
		Deferred B	100%
Parkman Consultants Limited	1	Ordinary	100%
Parkman Consultants Limited – Abu Dhabi Branch			
Parkman Holdings Limited	1	Ordinary	100%
Parkman Kenya Limited	12	Ordinary	100%
Parkman Nigeria Limited	13	Ordinary	100%
Pure Buildings Limited	1	Ordinary	100%
Pure Recycling Warwick Limited	1	Ordinary A	100%
		Ordinary B	100%
Saudi Kier Construction Limited	14	Ordinary	100%
T Cartledge Limited	1	Ordinary	100%
T H Construction Limited	1	Ordinary	100%
T J Brent Limited	1	Ordinary	100%
		Ordinary B	100%
		Ordinary C	100%
Tempsford Insurance Company Limited ²	15	Ordinary	100%
The Impact Partnership (Rochdale Borough) Limited	1	Ordinary	80.1%
Tor2 Limited	1	PSP Shares	100%
			80.01% ³

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

34 Subsidiaries and other undertakings continued

Subsidiaries continued

Company name	Registered office ¹	Share class(es) held	% held by Group
TradeDirect Logistics Limited	1	Ordinary	100%
Turriff Contractors Limited	16	Ordinary	100%
Turriff Group Limited	16	Ordinary	100%
		Ordinary A	100%
		Ordinary B	100%
Usherlink Limited	1	Ordinary	100%
W. & C. French (Construction) Limited	1	Ordinary	100%
Wallis Limited	1	Ordinary	100%
Wallis Western Limited	1	Ordinary	100%
William Moss Construction Limited (in liquidation)	17	Ordinary	100%
William Moss Group Limited (The)	1	Ordinary	100%

¹ See list of registered office details and explanatory notes on page 203.

Joint ventures

Company name	Registered office ¹	Interest held		Registered office ¹	Interest held
Property					
3 Sovereign Square Holdings 1 LLP	1	50%	Kingswood Devco LLP	1	50%
3 Sovereign Square Holdings 2 LLP	1	50%	Lysander Student Properties Investments Limited	1	75%
3 Sovereign Square LLP	1	50%	Lysander Student Properties Limited	1	75%
50 Bothwell Street Holdco 1 LLP	18	50%	Lysander Student Properties Operations Limited	1	75%
50 Bothwell Street Holdco 2 LLP	18	50%	Magnetic Limited	1	75%
50 Bothwell Street LLP	18	50%	Penda Limited	1	50%
Dragon Lane Holdings 1 LLP	1	50%	Premier Inn Kier Limited	1	50%
Dragon Lane Holdings 2 LLP	1	50%	Solum Regeneration (Bishops) LLP	1	50%
Dragon Lane LLP	1	50%	Solum Regeneration (Epsom) Limited Partnership	1	50%
Kent LEP 1 Limited	1	80%	Solum Regeneration (Guildford) LLP	1	50%
Kier (Newcastle) Investment Ltd	1	75%	Solum Regeneration (Haywards) LLP	1	50%
Kier (Newcastle) Operation Limited	1	75%	Solum Regeneration (Kingswood) LLP	1	50%
Kier (Southampton) Development Limited	1	75%	Solum Regeneration (Maidstone) LLP	1	50%
Kier (Southampton) Investment Limited	1	75%	Solum Regeneration (Redhill) LLP	1	50%
Kier (Southampton) Operations Limited	1	75%	Solum Regeneration (Surbiton) LLP	1	50%
Kier Cornwall Street Holdings 1 LLP	1	90%	Solum Regeneration (Twickenham) LLP	1	50%
Kier Cornwall Street Holdings 2 LLP	1	90%	Solum Regeneration (Walthamstow) LLP	1	50%
Kier Cornwall Street LLP	1	90%	Solum Regeneration Epsom (GP Subsidiary) Limited	1	50%
Kier Foley Street Holdco 1 LLP	1	90%	Solum Regeneration Epsom (GP) Limited	1	50%
Kier Foley Street Holdco 2 LLP	1	90%	Solum Regeneration Epsom (Residential) LLP	1	50%
Kier Foley Street LLP	1	90%	Solum Regeneration Holding 1 LLP	1	50%
Kier Maidenhead Holdings 1 LLP	1	90%	Solum Regeneration Holding 2 LLP	1	50%
Kier Maidenhead Holdings 2 LLP	1	90%	Transcend Property Limited	19	50%
Kier Maidenhead LLP	1	90%	Tri-Link 140 Holdings 1 LLP	1	50%
Kier Reading Holdco 1 LLP	1	90%	Tri-Link 140 Holdings 2 LLP	1	50%
Kier Reading Holdco 2 LLP	1	90%	Tri-Link 140 LLP	1	50%
Kier Reading LLP	1	90%	Watford Health Campus Limited	1	50%
Kier Richmond Holdings Limited	1	90%	Watford Health Campus Partnership LLP	1	50%
Kier Richmond Limited	1	90%	Watford Riverwell (Family Housing) LLP	1	50%
Kier Sydenham GP Holdco Limited	1	50%	Watford Riverwell Management Company Limited	21	50%
Kier Sydenham GP Limited	1	50%	Watford Woodlands LLP	1	50%
Kier Sydenham LP	1	50%	Winsford Devco LLP	1	50%
Kier Sydenham Nominee Limited	1	50%	Winsford Holdings 1 LLP	1	50%
Kier Trade City Holdco 1 LLP	1	90%	Winsford Holdings 2 LLP	1	50%
Kier Trade City Holdco 2 LLP	1	90%			
Kier Trade City LLP	1	90%			
Kier Warth Limited	1	50%			
Kingswood Devco Holdings 1 LLP	1	50%			
Kingswood Devco Holdings 2 LLP	1	50%			
Construction			Services		
Kier Graham Defence Limited	1	50%	2020 Knowsley Limited	1	80.1%
			Hackney Schools for the Future Limited	1	80%
			Team Van Oord Limited	20	25%

¹ See list of registered office details and explanatory notes on page 203.

Financial statements
Notes to the consolidated financial statements (continued)
For the year ended 30 June 2021

34 Subsidiaries and other undertakings continued

Joint operations

Joint operation name	Description	Trading address
UK		
Crossrail Contracts 300/410/435	a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited	BAM Ferrovial Kier JV C435, The London School of Beauty' 18-19 Long Lane, London, EC1A 9LP
Deephams	a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, and Aecom Limited	Deephams Sewage Treatment Wales, Pickett's Lock Lane, Edmonton, N9 0BA
Devonport	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited	St. James House, Knoll Road, Camberley, Surrey, GU15 3XW
Hercules	a joint arrangement between Kier Construction Limited, Kier Living Limited and Balfour Beatty	Hercules Site Offices, The Wessex Building, MOD Lyneham, Calne Road, Lyneham, Chippenham, SN15 4PZ
Hinkley Framework	a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited	J23 P&R HPC Postal Consolidation Centre, Huntsworth Business Centre, North Petherton, Somerset, TA6 6TS
HS2	a joint arrangement between Kier Infrastructure and Overseas Limited, Eiffage Génie Civil, Ferrovial Agroman (UK) Limited and BAM Nuttall Limited	5th Floor, Exchange House, Midsummer Boulevard, Milton Keynes, MK9 2EA
KCD	a joint arrangement between Kier Integrated Services Limited and Clancy Docwra Limited	Thames Water Offices, Clear Water Court, Vastern Rd, Reading, RG1 8DB
Kier WSP	a joint arrangement between Kier Integrated Services Limited and WSP UK Limited	Northamptonshire Highways, Highways Depot, Harborough Rd, Brixworth, Northants, NN6 9BX
Luton People Mover	a joint arrangement between Kier Infrastructure and Overseas Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
Mersey Gateway	a joint arrangement between Kier Infrastructure and Overseas Limited, Samsung C&T ECUK Limited and FCC Construcción S.A.	Forward Point, Tan House Lane, Widnes, WA8 0SL
RAF Lakenheath	a joint arrangement between Kier Construction Limited and VolkerFitzpatrick Limited	Hertford Road, Hoddesdon, EN11 9BX
Tarmac Kier JV	a joint arrangement between Kier Highways Limited and Tarmac Trading Limited	2 nd Floor, Optimum House, Clippers Quay Salford, M50 3XP

International

The following joint operations, in which the Group participation is between 30% and 65%, operate overseas in the territory indicated:

MTRC Contract 824	a joint arrangement between Kier Infrastructure and Overseas Limited and Kaden Construction Limited	Tower B, 6/F, Manulife Financial Centre, 223 Wai Yip Street, Kwun Tong, Kowloon, Hong Kong
MTRC Contract 901	a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited	Room 905, 9/F, King's Road, North Point, Hong Kong
Saadiyat Rotana Hotel and Resort Complex	a joint arrangement between Kier Construction LLC and Ali and Sons Contracting Co LLC	P.O. Box 2153, Abu Dhabi
Kier ACC	a joint arrangement between Kier Dubai LLC and Arabian Construction Co.SAL	P.O. Box 24461, Dubai

Registered office addresses

Number	Address
1	2nd Floor, Optimum House, Clippers Quay, Salford, M50 3XP, UK
2	Harbour Head, Harbour View, Kingston 17, Jamaica
3	Unit 31, Ddole Road Industrial Estate, Llandrindod Wells, Powys, LD1 6DF, UK
4	9-5 & 7-5, Jalan 8/146, Bandar Tasik Selatan, Kuala Lumpur, 57000, Malaysia
5	c/o Grant Thornton, Cnr Bank Street and West Independence Sq Street, Basseterre, Saint Kitts and Nevis
6	Unit 869, PO Box 61967 Level 08, Al Gaith Tower, Hamdan Street, Abu Dhabi, United Arab Emirates
7	151 Angle Avenue, Jean Paul II et Impasse Duverger, Turgeau, Port-au-Prince, Haiti
8	Unit 1501, P.O. Box 24461, Thuraya Tower, Plot No C-008-001, TECOM, Dubai, United Arab Emirates
9	Suite 1, Level 30, 360 Collins Street, Melbourne, VIC 3000, Australia
10	6th Floor, Emperor Commercial Centre, 39 Des Voeux Road Central, Hong Kong
11	22 Grenville Street, St Helier, Jersey, JE4 8PX, UK
12	5th Floor, Agip House, P.O. Box 41425, Nairobi, Kenya
13	9, N/Azikiwe St., Lagos, Nigeria
14	PO Box 667, 4th Floor, ATCO Building, King Khaled Road, Dammam-31421, Kingdom of Saudi Arabia
15	PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey
16	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, G33 6HZ, UK
17	1 More London Place, London, SE1 2AF, UK
18	Renoir House 135-137 New Bond Street, Mayfair, London, England, W1S 2TQ, UK
19	1 Kingsway, London, WC2B 6AN, UK
20	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ, UK
21	11 Little Park Farm Road, Fareham, Hampshire, PO15 5SN, UK

Explanatory notes

- ¹ The share capital of all entities is wholly owned and held indirectly by Kier Group plc unless indicated otherwise.
- ² Shares held directly by Kier Group plc.
- ³ Total interest in entity held by the Group as there are other share class(es) held by a third party.
- ⁴ In some jurisdictions in which the Group operates, share classes are not defined and in these instances, for the purposes of disclosure, these holdings have been classified as ordinary shares.
- ⁵ The Group has entered into a partnership arrangement with North Tyneside Council whereby the Council has a participating ownership interest and receives a minority share of the profits of Kier North Tyneside Limited.
- ⁶ Joint operations are contracted agreements to co-operate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.
- ⁷ Interests in the above joint ventures are held by subsidiary undertakings.
- ⁸ The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group has joint control.
- ⁹ Accounted for as a subsidiary as control is achieved through an agreement between shareholders.
- ¹⁰ Where companies are shown as being in liquidation, in all cases this is a members voluntary liquidation.
- ¹¹ Winding up completed on 6 August 2021.

35 Post balance sheet event

On 19 July 2021, there was a fire at the Group's waste recycling facility based in Warwickshire. The facility building and plant, owned by the Group's subsidiary, Pure Recycling Warwick Limited, had a net book value of £4.1m, with a further £2.0m in relation to the land. The building was insured and work is ongoing to assess the financial impact of the fire.

Financial statements
Company balance sheet
As at 30 June 2021

	Notes	2021 £m	2020 £m
Non-current assets			
Investments	6	429.2	532.2
Amounts due from subsidiary undertakings	7	1,411.9	1,382.7
Other financial assets	9	11.4	30.0
Non-current assets		1,852.5	1,944.9
Current assets			
Debtors	7	3.1	2.0
Other financial assets	9	2.0	–
Current assets		5.1	2.0
Total assets		1,857.6	1,946.9
Current liabilities			
Bank overdraft		(214.1)	(123.1)
Creditors – amounts falling due within one year	8	(54.8)	(72.1)
Current liabilities		(268.9)	(195.2)
Non-current liabilities			
Creditors – amounts falling due after more than one year	8	(362.3)	(689.8)
Amounts due to subsidiary undertakings	8	(120.1)	(117.1)
Provisions		(6.1)	–
Non-current liabilities		(488.5)	(806.9)
Total liabilities		(757.4)	(1,002.1)
Net assets		1,100.2	944.8
Shareholders' funds			
Called up share capital	10	4.5	1.6
Share premium account		684.3	684.3
Merger reserve		350.6	134.8
Capital redemption reserve		2.7	2.7
Profit and loss account		57.2	119.2
Cash flow hedge reserve		0.9	2.2
Total shareholders' funds		1,100.2	944.8

The loss for the year was £68.7m (2020: £98.6m).

The financial statements of Kier Group plc, company registration number 2708030, on pages 204 to 210 were approved by the Board of Directors on 15 September 2021 and were signed on its behalf by:

ANDREW DAVIES
Chief Executive

SIMON KESTERTON
Chief Financial Officer

Financial statements
Company statement of changes in equity
For the year ended 30 June 2021

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Cash flow hedge reserve £m	Total equity £m
At 1 July 2019	1.6	684.3	134.8	2.7	212.4	(0.7)	1,035.1
Loss for the year	–	–	–	–	(98.6)	–	(98.6)
Other comprehensive income	–	–	–	–	–	2.9	2.9
Share-based payments	–	–	–	–	5.4	–	5.4
At 30 June 2020	1.6	684.3	134.8	2.7	119.2	2.2	944.8
Loss for the year	–	–	–	–	(68.7)	–	(68.7)
Other comprehensive expense	–	–	–	–	–	(1.3)	(1.3)
Issue of own shares	2.9	–	215.8	–	(0.3)	–	218.4
Share-based payments	–	–	–	–	7.0	–	7.0
At 30 June 2021	4.5	684.3	350.6	2.7	57.2	0.9	1,100.2

Included in the profit and loss account is the balance on the share scheme reserve which comprises the investment in own shares of £0.1m (2020: nil) and a credit balance on the share scheme reserve of £11.7m (2020: £10.3m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment scheme are included in note 28.

Financial statements
Notes to the Company financial statements
For the year ended 30 June 2021

1 Accounting policies

The principal accounting policies are summarised below. Other than where new accounting policies have been adopted (as noted below), they have been applied consistently throughout the year and the preceding year.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006. The financial statements have been prepared under the historical cost convention.

Kier Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is given on page 212.

The Company's financial statements are included in the Kier Group plc consolidated financial statements for the year ended 30 June 2021. As permitted by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

None of the standards, interpretations or amendments effective for the first time from 1 July 2020 have a material effect on the Company's financial statements.

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by FRS 101:

- › The requirement of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share-Based Payments'
- › The requirements of IFRS 7 'Financial Instruments: Disclosures'
- › The requirements of paragraphs 91 to 99 of IFRS 13 'Fair Value Measurement'
- › The requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 79(a)(iv) of IAS 1
- › The requirement of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134 to 136 of IAS 1 'Presentation of Financial Statements'
- › The requirements of IAS 7 'Statement of Cash Flows'
- › The requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'
- › The requirement of paragraphs 17 and 18A of IAS 24 'Related Party Disclosures'
- › The requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of a group
- › The requirements of paragraphs 134(d) to 134(f) and 135(c) to 135(e) of IAS 36 'Impairment of Assets'

These financial statements are separate financial statements.

Where required, equivalent disclosures are given in the Annual Report and Accounts of the Group as shown in notes 1 to 9.

Going concern

The Directors have made enquiries and have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. For this reason, they adopt the going concern basis in preparing the financial statements. See also pages 136 to 137.

Fixed asset investments

Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for impairment.

Taxation

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The deferred tax provision is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated.

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

(a) Cash and cash equivalents

Cash and cash equivalents 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.

(b) 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.

(c) Amounts due from subsidiary undertakings

Amounts due from subsidiaries are initially recorded at their fair value. Subsequent to initial recognition, the loans are measured at amortised cost. In accordance with IFRS 9, the Company has undertaken an exercise of calculating the expected credit losses on the amounts due from subsidiaries. The Directors regard the relevant subsidiaries as having a relatively low probability of default on the loans and do not consider that there has been a significant increase in credit risk since the loan was first recognised. By virtue of their participation in Group bank pooling arrangements, the subsidiaries had access to sufficient facilities to enable them to repay the loans, if demanded, at the reporting date. Only immaterial amounts of expected credit losses were calculated and, therefore, the Company has chosen not to adjust the value of the loans for any expected credit loss provisions.

(d) Derivative financial instruments

As permitted by IFRS 9, the Company has chosen to continue to apply the hedge accounting requirements of IAS 39.

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Company would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Company enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

Share-based payments

Share-based payments granted but not vested are valued at the fair value of the shares at the date of grant. This affects the Sharesave, Conditional Share Award Plan and Long-Term Incentive Plan (LTIP) schemes. The fair value of these schemes at the date of award is calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a Stochastic model. Awards that are subject to a post vesting holding period are valued using the Finnerly model.

The cost to the Company of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance period. The scheme awards to senior employees of the Company a number of shares which will vest after three years if particular criteria are met. The cost of the scheme is based on the fair value of the shares at the date the options are granted.

Shares purchased and held in trust in connection with the Company's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Company accounting policies which are described above, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates are based on historical experience and the factors that are considered to be relevant. Actual results may differ from those estimates.

The estimates are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

There are no critical judgements, apart from those involving estimates, that the Directors have made in the process of applying the Company's accounting policies and that have a significant effect on the amounts recognised in the financial statements.

Valuation of investments

The Company tests annually whether its 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.

Considerable headroom exists when comparing the book value of the investments with their recoverable amounts. Therefore, the Directors have determined that the investment value is not particularly sensitive to changes in the assumptions used in the value in use calculations. Any reasonable adjustment to any of the assumptions would not result in an impairment of the investments.

2 Loss for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The loss for the year was £68.7m (2020: £98.6m).

The auditors' remuneration for audit services to the Company was £0.1m (2020: £0.1m).

3 Information relating to Directors and employees

Information relating to Directors' emoluments, pension entitlements, share options and LTIP interests appears in the Directors' remuneration report on pages 98 to 117. The Company has no employees other than the Directors.

4 Dividends

No dividends have been paid by the Company (2020: £nil). See note 11 to the consolidated financial statements.

Financial statements
Notes to the Company financial statements (continued)
For the year ended 30 June 2021

5 Disposals

The loss on disposal incurred by the Company was:

	2021 £m
Sale proceeds	110.0
Working capital adjustment ¹	10.8
Total consideration	120.8
Book value of investment disposed of	(110.0)
Sale costs	(9.7)
Overdraft settled ²	(72.7)
Liabilities recognised on disposal ³	(6.5)
Kier Living accruals assumed	(1.8)
Loss on disposal	(79.9)

¹ The disposal was subject to a 'locked box' mechanism. The adjustment represents the movement in the Kier Living working capital since the 'locked box' date.

² A condition of the disposal was the settlement of the Kier Living overdraft prior to disposal.

³ As part of the disposal the Company retained some obligations to fulfil existing contracts. The Company recognised liabilities on disposal of Living which represent the costs of completing the outstanding work. In addition, a piece of land owned by Kier Limited was transferred to Kier Living on disposal, generating a Stamp Duty Land Tax liability.

6 Investments

	2021 £m	2020 £m
At 1 July	532.2	486.2
Capital contributions	7.0	169.2
Disposal	(110.0)	–
Impairment	–	(123.2)
At 30 June	429.2	532.2

Details of the Company's subsidiaries at 30 June 2021 are provided in note 34 to the consolidated financial statements.

Capital contributions of £7.0m were made during the year ended 30 June 2021 in relation to share-based payments on behalf of subsidiaries (2020: £5.4m).

In FY20, the Company purchased additional shares in its subsidiary, Kier Living, on 11 January 2020 for £163.8m. The Directors assessed the recoverability of the investment in Kier Living and impaired the value by £123.2m. The disposal of Kier Living was completed during the year, see note 5.

7 Debtors

	2021 £m	2020 £m
Amounts falling due within one year:		
Other debtors	0.1	–
Deferred tax	3.0	2.0
	3.1	2.0
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings ¹	1,411.9	1,382.7
	1,411.9	1,382.7

¹ The amounts due from subsidiary undertakings incur interest at 4.0% and are repayable between one and four years.

8 Creditors

	2021 £m	2020 £m
Amounts falling due within one year:		
Borrowings	38.2	61.4
Corporation tax	12.1	9.7
Other creditors	4.5	1.0
	54.8	72.1
Amounts falling due after more than one year:		
Borrowings	362.3	689.8
Amounts due to subsidiary undertakings ¹	120.1	117.1
	482.4	806.9

¹ The amounts due to subsidiary undertakings incur interest at 4.0% and are repayable after one year.

Further details on borrowings are included in note 22 to the consolidated financial statements.

9 Derivative financial instruments

The Company has the following cross-currency swaps:

- Two cross-currency swaps taken out in 2013 to hedge the currency risk on a US dollar-denominated loan, nominal value US\$20.0m.
- Three cross-currency swaps taken out in 2014 to hedge the currency risk on a US dollar-denominated loan, nominal value US\$104.0m.
- One cross-currency swap taken out in 2016 to hedge the currency risk on a euro-denominated loan, nominal value €10.0m

In FY20, the Company had three interest rate swaps with a total value of £65.5m. All expired in May 2021.

The Company has assessed the effectiveness of these swaps and concluded that they are 100% effective. Therefore, no amount in relation to hedge ineffectiveness has been charged or credited to the income statement in relation to any cross-currency swap.

The following table indicates the periods in which the cash flows associated with cash flow hedges are expected to occur and the fair value of the related hedging instruments:

	Fair value £m	Total £m	0–1 year £m	1–2 years £m	Expected cash flows 2–5 years £m
Cross-currency swaps: asset					
Gross settled inflows	–	109.5	19.1	26.3	64.1
Gross settled outflows	–	(95.8)	(16.7)	(23.4)	(55.7)
	13.4	13.7	2.4	2.9	8.4

Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The Company uses cross-currency and interest rate swaps for hedging. These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the bank counterparties using mid-market mark to market valuations for trades at the close of business on 30 June 2021.

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2021.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	13.4	–	13.4

Financial statements
Notes to the Company financial statements (continued)
For the year ended 30 June 2021

9 Derivative financial instruments continued

The following table presents the Company's financial assets and liabilities that are measured at fair value at 30 June 2020:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	30.4	–	30.4
Liabilities				
Derivatives used for hedging – Interest rate swaps	–	(0.4)	–	(0.4)

There were no transfers between levels 1 and 2 during the year.

10 Called up share capital

Details of the share capital of the Company are included in note 27 to the consolidated financial statements.

Other information
Financial record
(unaudited)

Continuing operations

Year ended 30 June	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue: Group and share of joint ventures	3,328.5	3,475.6	4,106.0	4,512.8	4,265.2
Less share of joint ventures	(67.5)	(53.1)	(154.9)	(273.2)	(153.5)
Group revenue	3,261.0	3,422.5	3,951.1	4,239.6	4,111.7
Profit					
Group operating profit ¹	96.4	41.0	75.6	140.8	115.2
Share of post-tax results of joint ventures	3.9	(0.2)	10.1	42.7	25.0
Profit on disposal of joint ventures	–	0.6	–	3.5	5.4
Operating profit before adjusting items	100.3	41.4	85.7	187.0	145.6
Net finance costs before adjusting items	(34.9)	(24.5)	(24.3)	(23.1)	(19.5)
Profit before adjusting items and tax	65.4	16.9	61.4	163.9	126.1
Amortisation of acquired intangible assets relating to contract rights	(21.0)	(23.7)	(24.8)	(25.6)	(22.3)
Adjusting finance costs	(3.2)	(5.2)	(1.7)	(5.1)	(2.9)
Other adjusting items	(35.6)	(213.3)	(264.4)	(27.0)	(115.1)
Profit/(loss) before tax	5.6	(225.3)	(229.5)	106.2	(14.2)
Basic earnings per share before adjusting items ²	25.0p	12.2p	24.8p	109.8p	84.2p
Dividend per share ²	–	–	3.9p	54.4p	53.2p
At 30 June					
Shareholders' funds (£m)	435.0	240.8	519.6	601.1	511.4
Net assets per share²	206.8p	119.4p	257.2p	486.5p	413.9p

¹ Stated before adjusting items. See note 5 for reference to adjusting items.

² Earnings per share, dividends per share and net assets per share have been re-presented in the comparative information as a result of the equity raise which completed on 18 June 2021 and, where applicable, the rights issue which completed on 20 December 2018, see note 27.

Board of Directors

M J Lester
A O B Davies
S J Kesterton
A J Atkinson
J R Atkinson
H V Rabbatts
C G Watson

Secretary

J Tham

Registered office

Kier Group plc
2nd Floor
Optimum House
Clippers Quay
Salford
M50 3XP

Registered number

England and Wales 2708030

Financial calendar

19 November 2021
Annual general meeting

March 2022
Announcement of half-year results for the six months ending
31 December 2021

September 2022
Announcement of preliminary full-year results for the year ending
30 June 2022

Independent auditors

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Principal bankers

Barclays Bank plc
1 Churchill Place
London
E14 5HP

Lloyds Banking Group plc
10 Gresham Street
London
EC2V 7AE

HSBC Bank plc
Metropolitan House
321 Avebury Boulevard
Milton Keynes
MK9 2GA

Santander UK plc
2 Triton Square
Regent's Place
London
NW1 3AN

The Royal Bank of Scotland plc
250 Bishopsgate
London
EC2M 4AA

Registrars

Link Group
Unit 10
Central Square
29 Wellington Street
Leeds
LS1 4DL

Financial advisers

Gleacher Shacklock LLP
Cleveland House
33 King Street
London
SW1Y 6RJ

Numis Securities Limited
10 Paternoster Square
London
EC4M 7LT

Peel Hunt LLP
100 Liverpool Street
London
EC2M 2AT

Rothschild & Co
New Court
St Swithin's Lane
London
EC4N 8AL



Printed in the UK on Amadeus Primo Silk which is produced using wood fibre from fully responsible forests with FSC® certification. All pulps used are Elemental Chlorine Free (ECF). The manufacturing mill holds the ISO 14001 and EU Ecolabel certificates for environmental management.

Consultancy, design and production by Black Sun plc.
www.blacksunplc.com

Kier Group plc
2nd Floor
Optimum House
Clippers Quay
Salford
M50 3XP
www.kier.co.uk



www.kier.co.uk

Our corporate website has key information covering our capabilities, markets, corporate responsibility and investor relations.



Join the conversation

Engage with us and keep up with the latest news and developments via social media.

Kier Group plc

2nd Floor
Optimum House
Clippers Quay
Salford
M50 3XP

