KIER

Annual Report and Accounts 2022

Vital to the UK

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Our medium-term value creation plan:

The Group is now focused on delivering its medium-term targets:
- Revenue: £4.0bn–£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.

Financial

Total Group revenue – including joint ventures[1]
£3.3bn
2021: £3.3bn

Total Group revenue – excluding joint ventures[1]
£3.1bn
2021: £3.3bn

Profit from operations[1]
£45.1m
2021: £43.7m

Adjusted operating profit from operations[1,2]
£120.5m
2021: £100.3m

Earnings per share[1,4]
2.9p
2021: 11.6p

Earnings per share before adjusting items[1,4]
16.8p
2021: 25.0p

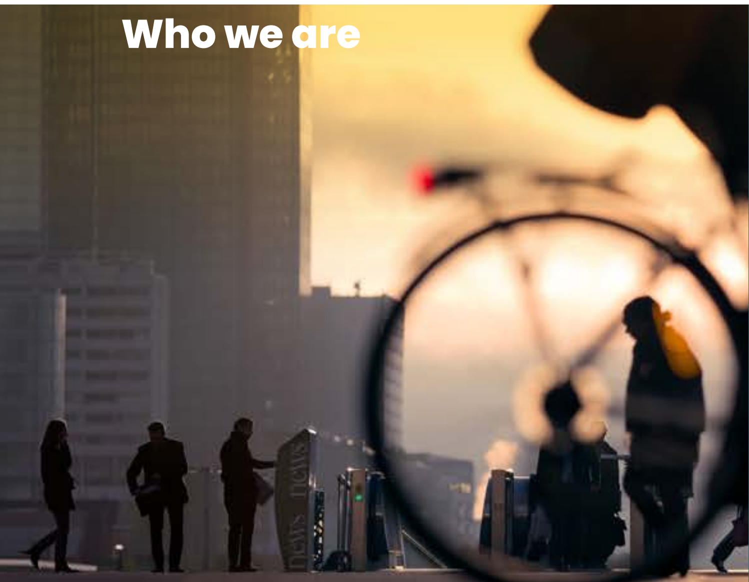
Order book
£9.8bn
2021: £7.7bn

Net cash – 30 June[3]
£2.9m
2021: £3.0m

Net debt – average[3]
£(216.1)m
2021: £(431.9)m

1 See consolidated income statement on page 148.
2 See note 5 to the consolidated financial statements.
3 See note 21 to the consolidated financial statements.
4 See note 11 to the consolidated financial statements.

Who we are



We are a leading provider of infrastructure services, construction and property developments. We are committed to delivering for communities and leaving lasting legacies through our work.

Read more online
www.kier.co.uk

Our purpose

Kier's purpose is to sustainably deliver infrastructure which is vital to the UK.

Vital to the economy and the businesses that need to deliver 24/7 up and down the UK

Infrastructure services
Comprises our Highways, Infrastructure and Utilities businesses.

Highways: builds and maintains roads for National Highways and local authorities.

Infrastructure: delivers high value and complex infrastructure and civil engineering projects.

Utilities: delivers long-term contracts providing repairs, maintains and support of capital projects to the water, energy, and telecommunications sectors.

Revenue – including joint ventures
£1.7bn

Adjusted operating profit
£70.0m

Roads maintained over
21,000km

Broadband connections made when people needed it most
185,000

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

Vital to schoolchildren around the UK

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

Revenue – including joint ventures
£1.4bn

Adjusted operating profit
£60.8m

Completed education projects
45

Completed health projects
45

Provides facilities management for
2,171 buildings

Vital to society and communities across the country

Property
Our Property business invests and develops schemes and sites across the United Kingdom. It concentrates on mixed-used commercial and residential development business delivered through joint venture partnerships.

Revenue – including joint ventures
£144m

Adjusted operating profit
£17.6m

Maintained residential units
+5,000

Delivered
2,727
student bedrooms

Delivered and in control, industrial space
6.7m ft^2

Key investment proposition

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

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

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 £9.8bn
- We have places on agreements with an advertised value of up to £124bn (OJEU values) across all of our core markets covering both national and regional geographies and market sectors
- Contracts across a number of sectors including health, education, justice and defence
- Contracting with the UK Government, regulated and blue-chip clients
- Long-standing customer and supplier relationships

Management team with expertise and track record of delivery
- 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.

Chairman's statement

"We are on track to deliver the medium-term value creation plan."

Matthew Lester
Chairman

Introduction

Welcome to Kier's FY22 Annual Report, my third as Chairman. The FY22 performance means the Group remains on track to deliver the medium-term value creation plan despite the wider economic and political backdrop.

Following Kier's restructuring and recapitalisation last year, the Executive team has continued to financially strengthen the Group through disciplined contract growth, increased earnings and operational delivery.

The Group has reduced its cost base, rebuilt its order book and increased discipline from its risk management and Operating Framework, by embedding Performance Excellence processes.

We achieved industry standard margins, have allocated capital to our Property business, as well as invested in our people and capabilities. With the UK Government's commitment to £650bn of spending on infrastructure over 10 years, the Group continues to leverage the opportunities ahead.

Strategic actions

The key focus for FY22 was the continued delivery of the medium-term value creation plan. We planned for disciplined growth, consistent delivery and cash generation. I am pleased to say that we are tracking well against this.

The year-end order book grew to £9.8bn, a significant increase of c.27% against the prior year (FY21: £7.7bn) reflecting a significant number of contract wins across all divisions. With the strengthened balance sheet, clients are returning to Kier and bidding activity continues to be strong.

Group revenue was broadly flat year over year at £3.3bn (FY21: £3.3bn) which reflected anticipated reduced volumes in the Construction division. Adjusted operating profit grew by 20% to £120.5m (FY21: £100.3m). Free cash flow was £54.6m. The balance sheet improved with average net debt declining from £(432)m to £(216)m.

The Board continued to monitor performance with appropriate Key Performance Indicators ('KPIs'). A number of new Performance Excellence initiatives were embedded in the business. Particular focus was on our ability to win high-quality contracts and framework positions. I am proud to say that our client satisfaction rate remains high at 91%. This is further evidenced by the growth in our order book.

We have regularly discussed how inflation and global supply chain issues impact our business model at the Board. FY22 has been subject to inflationary pressures. These additional costs have been mitigated through contractual protection, customer negotiations and operational efficiencies.

Safety is a strategic matter at Kier and our licence to operate. This continues to be an area of focus for the Board given its importance. This year's performance is discussed in the Chief Executive's review and the ESG Committee Report.

With the strong order book, strengthened balance sheet and consistent management discipline, we believe the business is on track to deliver the medium-term value creation plan.

Culture

The Board has focused on ensuring that the Group's purpose, values and strategy are aligned with our desired culture. We have looked at customer and supply chain feedback as well as employee engagement. Our customer satisfaction rate remains high, we continue to engage and pay our supply chain in-line with the UK Government Prompt Payment Code and our employee surveys indicate 63% employee engagement.

More information on employee engagement is set out in the Corporate governance report.

Our people

On behalf of the Board, I would like to thank everyone that has contributed to Kier's performance in FY22 including our customers, supply chain partners and especially our hard working and dedicated employees. The Board has focused on ensuring we have the talent necessary to deliver the strategy and is very pleased with the progress made in this area.

There has been relentless focus on operational delivery for our customers that has enabled us to achieve the progress made in the year.

I had the privilege to present the Chairman's Award at our Pride of Kier Awards in June 2022. I was very humbled and proud of our people for their phenomenal achievements for going above and beyond. It was truly a celebratory evening, recognising the accomplishments of our great people.

The Board has spent significant time engaging with employees and understanding their views including conducting site visits. Our project teams are continually delivering a wide range of projects from housing maintenance to significant large scale infrastructure projects as well as regenerating urban locations. I am proud of their dedication and professionalism.

Environmental, Social and Governance (ESG)

ESG is fundamental to Kier's ability to win work and secure positions on long-term frameworks. UK Government contracts require net zero carbon and social value commitments. Procurement Policy Note 06/21 requires a carbon reduction plan, Procurement Policy Note 06/ 20 requires the maximisation of social value and the Construction Playbook sets standards and sustainability considerations.

We have partnered with a number of clients in achieving their net zero carbon ambition, for example St Sidwell's Point in Exeter, the UK's first Passivhaus standard leisure centre.

Kier launched its Sustainability Framework in 2020 and in 2021 we transitioned our Safety, Health and Environment Committee to an ESG Committee. This is the first year of our ESG Committee in operation. During the year, the Committee agendas were broadened and realigned to increase focus on employee wellbeing and engagement and social matters. It also monitored progress against our ESG commitments. More information is set out in the ESG Committee report.

In FY23 Kier will create a plan, with milestones, to enable the Board to monitor progress in achieving the carbon reduction and other social targets.

The Group is committed to achieving net zero carbon (scope 1, 2 & 3) by 2045 and creating £5bn of social value by 2030.

New Board member

I am delighted to welcome Chris Browne who will be joining the Board on 15 September 2022. Chris Browne serves as a Non-Executive Director on other boards, including that of the airline, Norwegian, and of housebuilders, Vistry Group. She has held a number of senior leadership positions within the aviation industry, most recently as Chief Operating Officer of easyJet plc until June 2019.

Chris has significant experience in commercial and operational areas. Following Chris's appointment, women will constitute 38% of Kier's Board.

Conclusion

The Group has a focused strategy, strengthened financial position and strong operational capability. The UK Government remains committed to infrastructure spending. Kier is well-placed to leverage its capability to continue winning high-quality work as demonstrated by the FY22 order book. The nature of our contracts and disciplined approach, means we are confident the Group can manage the inflationary environment. We are on track to deliver the medium-term value creation plan. The Board continues to monitor initiatives behind the plan and ensure it aligns to our desired culture. The Board will focus on the implementation of our ESG plan and on aligning this with our Remuneration policy.

With the solid foundations that have now been put in place and given our performance in FY22, the Board has confidence that we can leverage our platform for future growth and start returning capital to shareholders over time.

Matthew Lester
Chairman

Chief Executive's review

"The Group's strong performance over the year reflects our significantly enhanced resilience and strengthened financial position."

Andrew Davies
Chief Executive

Introduction

Over the last two years Kier has undergone a transformation, rationalisation and recapitalisation and the Group is delivering against its medium-term value creation plan.

The year-end order book in FY22 was £9.8bn, a significant increase of 27% against the prior year, reflecting a large number of contract wins across all divisions and providing multi-year revenue visibility. Long-term framework positions, as well as pipeline opportunities and fees from the Property division, are excluded from the order book and represent an additional opportunity. Given the order book increase and Kier's framework positioning, approximately 85% of Group revenue for FY23 is already secured which provides us with a high degree of certainty against a backdrop of wider market uncertainty.

The Group continued to maximise value and opportunities. Kier won new, high-quality and profitable work in our markets reflecting the bidding discipline and risk management embedded in the business.

Medium-Term Value Creation Plan

The Group is focused on delivering its medium-term targets over a three to five year period:

Revenue:	£4.0–4.5bn
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.

The Group continues to make good progress against these targets. Despite political and economic uncertainties, our core markets have remained favourable. We are a 'strategic supplier' to the UK Government and over 90% of our contracts are with the public sector and regulated companies.

Financial Summary

Kier reported revenue of £3.3bn (FY21: £3.3bn) which reflected the anticipated reduced volumes in the Construction division.

The Group's FY22 results reflect a strong operational performance despite increased cost inflation relating to materials, wages and other costs. We were successful in mitigating these pressures through having c.60% of our order book under target cost or cost reimbursable contracts; various procurement strategies; ability to mitigate risk through negotiations on fixed price contracts and an average order size of c.£13m in our Construction business resulting in a regular re-pricing of contracts.

The Group delivered adjusted operating profit of £121m which represents a 20% increase on the prior year (FY21: £100m). All our divisions, Infrastructure Services, Construction and Property performed well during the year, after adjustments. Accordingly, Group adjusted operating profit margin increased by 70 basis points to 3.7% (FY21: 3.0%).

Adjusted earnings per share was 16.8p (FY21: 25.0p). The decrease was driven by the dilution from the FY21 equity raise.

The Group generated £55m of free cash flow in FY22 (FY21: £93m). Following the seasonal working capital outflow in H1 of £143m, as expected the full year showed a reversal of this situation.

Free cash flow reduction from FY21 to FY22 was primarily due to lower working capital inflow from lower Construction volumes, a reduction in our working capital supply chain ('KEPS') facility and repayment of COVID-19 support to HMRC.

The Group's net cash position at 30 June 2022 was £3m and remain unchanged from FY21. The Group has worked with its supply chain partners to reduce average payment days and pay in line with terms over the last two years.

Average month-end net debt for the year was £(216)m (FY21: £(432)m), significantly improved year-over-year, primarily due to the equity raise and sale of the Group's housebuilding business, Kier Living.

The average month-end net debt position was impacted by working capital, a £29m KEPS reduction, £21m of HMRC COVID-19 support repayment as well as from the cash impact of recent adjusting items.

Subsequent to the year-end, the Group repaid the remainder of its £50m KEPS facility in full.

Customers and winning new work

We remain focused on winning work through our long-standing client relationships and regionally based operations.

Highlights in the year:

Highways – awarded £560m maintenance work and services contracts for North Northamptonshire and West Northamptonshire Councils for seven years (with an option for a further seven-year extension)

Infrastructure – appointed to the £1.6bn Pagabo Civils and Infrastructure Framework for four years; Kier BAM Joint Venture appointed by Babcock International on a refurbishment project at Devonport's 10 dock facility in Plymouth. The project is expected to run for 10 years

Utilities – awarded a place on Northern Ireland Water's £1.2bn Major Projects Partnership Framework in joint venture with BAM for four years (with an option for a further four-year extension)

Construction – awarded a £500m contract to deliver new houseblock buildings across six prisons with Wates; awarded a £400m contract for HMP Full Sutton, a new prison in East Yorkshire; awarded a pre-construction services agreement to deliver HMP Glasgow, a new prison on a 54-acre site in Scotland; awarded a £32.5m refurbishment contract for Manchester Aquatics Centre; selected by Baring and LBS Properties to design and construct a £69m mixed-use sustainable building in London

Kier Places – appointed to £35bn Crown Commercial Service's Facilities Management and Workplace Services Framework for four years

Property – agreed an £80m equity residential 50:50 joint venture with Housing Growth Partnership to develop urban brownfield sites across the UK over five years.

Strategy

The simplification and strengthening of the Group's balance sheet has resulted in Kier being well-placed to continue to pursue its strategic objectives successfully within its chosen markets and 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:
- the 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.

Capital Allocation

In addition to the medium-term value creation plan, the Group has set out its capital allocation priorities. The Group maintains a disciplined approach to capital and continuously reviews capital allocation priorities with the aim of maximising shareholder returns. The Group's capital allocation is underpinned by its commitment to maintain a strong balance sheet. The capital priorities are:
- Capex – disciplined and non-speculative investment to support its businesses;
- Deleveraging – further deleveraging. Targeting a sustainable net cash position in the medium term and a funding profile which is appropriate for the medium and long-term needs of the Group;
- Dividend – reinstating the dividend is key to ensuring that shareholders share the benefits of Group's growth. In the medium term, the Group is targeting a dividend cover of around three times cover through the cycle; and
- Mergers and acquisitions – the Group will consider value accretive acquisitions in core markets where there is potential to accelerate the medium-term value plan.

Performance Excellence

Through our Performance Excellence culture, which was introduced in 2020, Kier has embedded a strong operational and financial risk management framework across the Group. It is essential to, and embedded into, Kier's contract selection and delivery processes.

In 2022, we have updated Performance Excellence to match the evolving needs of Kier and its clients. Five new workstreams have been established, Culture and Behaviours, Customers, Digital, Simplification and Wellbeing. These workstreams ensure we continue to meet our obligations to the environment and the communities we work within, as well as our investors and client expectations.

The key tenets are as follows:
- measure clients' and customers' experiences objectively, using data to improve our external relationships;
- adopt a digital-first approach through a digitally enabled workforce increasing productivity;
- instil best practices in our workforce through behaviour, cultural programmes, and wellbeing initiatives
- simplify processes across the Group; and
- win new business with attractive margins.

Performance Excellence is also fundamental to the Group's overall approach to safety.

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 2022 to 30 June 2022, the Group's aggregate average payment days was 33 days (H1: 34 days) and the percentage of payments made to suppliers within 60 days was 89% (H1: 92%).

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 Change

The Group has continued to strengthen its management team through the year with the appointment of Andrew Bradshaw, Group Managing Director, Infrastructure Services (Utilities) to the Executive Committee. Andrew replaced Barry McNicholas who retired from the business during the year.

Executive Committee

Executive Board members

Andrew Davies
Chief Executive

Simon Kesterton
Chief Financial Officer

Corporate functions

Alpna Amar
Corporate Development Director

Helen Redfern
Chief People Officer

Sophie Timms
Corporate Affairs Director

Stuart Togwell
Group Commercial Director

Group Managing Directors

Andrew Bradshaw
Group Managing Director
Utilities

Liam Cummins
Group Managing Director
Construction

Joe Incutti
Group Managing Director
Highways

Mark Pengelly
Group Managing Director
Infrastructure

Leigh Thomas
Group Managing Director
Property

Environmental, Social and Governance ('ESG')

Kier's purpose is to sustainably deliver infrastructure which is vital to the UK. As a 'strategic supplier' to the UK Government, ESG is fundamental to our ability to win work and secure positions on long-term frameworks. The UK Government contracts above £5m require net zero carbon and social value commitments.

Last year, we launched our new sustainability framework, 'Building for a Sustainable World' which covers sustainability from both an environment and social perspective. Our framework is based on ten pillars and follows the guiding principles of the 17 United Nation's Sustainable Development Goals ('SDGs').

We believe that to be a responsible business and to play a leading role in our industry, we must address both the impact of climate change and leave a lasting legacy in the communities in which we operate.

Environmental

This year we published our first Task Force on Climate Related Financial Disclosure ('TCFD') report. The report outlines our assessment of climate related risks and opportunities with respect to our operations, against the four key areas of governance, strategy, risk management as well as metrics and targets. It highlights how we are managing these risks and opportunities and their short, medium or long-term impact on the Group.

For carbon emissions, we have set out our pathway to become net zero carbon across our business operations by 2039 (scope 1 and 2), value chain (scope 3) by 2045 together with interim targets. We achieved a 31% year-over-year reduction in carbon emissions from our business operations (scope 1 & 2) in FY22. We also started reporting on our scope 3 emissions for the first time.

Social

We have also made commitments on social value. We have promised to create £5bn in social value by 2030.

In order to record our social value creation, we moved to a new calculator called Thrive in FY22. Thrive has the ability to track social value across our bidding activity and live projects. It links back to the UK Government's Social Value Model. The calculator enables Kier to quantify and benchmark its positive contribution against other companies.

Kier is a people based business and our performance depends upon our ability to attract and retain a dedicated workforce. During FY22 we had:

- Over 590 apprentices participating in programmes, 6% of our workforce;
- Graduate intake comprising 38% women; and
- Developed and implemented a new health, safety and wellbeing strategy as well as launched a new behavioural programme.

We are committed to becoming an inclusive business. Last year, we launched our diversity and inclusion roadmap. As part of our journey to becoming diverse, we began our Empower programme, a reverse mentoring initiative which enables Kier employees from under-represented groups to mentor members of the Executive Committee and senior leadership teams.

We also have a number of other ongoing initiatives in the Group including continuous training for our employees as part of our Expect Respect campaign.

The Group's 12-month rolling Accident Incident Rate ('AIR') in FY22 of 115 represents an increase of 9% compared to FY21. We are disappointed with the AIR trend given our high standards. This continues to be a keen area of focus for us. We retain a solid safety record that is c.58% better than the industry benchmark.

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 All Accident Incident Rate ('AAIR') in FY22 of 316 represents a decrease of 5% against the prior year.

During the year, we launched a behaviour programme focused on employee physical safety, mental safety and wellbeing.

Governance

Governance is a core component of the Group's approach to operations. Governance is delivered within Kier's Operating Framework. The laws, policies and procedures underpinning the Operating Framework are regularly reviewed and updates implemented as necessary. The Operating Framework was refreshed in FY22. Within the Operating Framework is Kier's Code of Conduct which sets the corporate compliance agenda.

Integral to this is our management of risk. We ensure that risk management is adopted at every stage of the project lifecycle.

Our ESG Committee oversees the adoption of our sustainability framework and commitments, with this year being the first year of operation. Our approach to sustainability aims to safeguard our business and build a resilient environment, resilient community and resilient profits over the long term.

Our People

The Group's strong performance is attributable to the dedication of our c.10,000 employees across the UK. I would like to thank them for their commitment and contribution throughout the year.

The Group remains committed to creating a workplace that aligns with Kier's values of collaboration, trust and focus. We are embracing new ways of working, as well as supporting and developing our people. During the year, we implemented a range of family-friendly policies including enhanced maternity leave, paternity leave, adoption and surrogacy. The Group is keen on listening to its workforce and has deployed strategies to engage with our employees. We have continued with our employee surveys which indicate a 63% employee engagement score for FY22.

Summary and Outlook

The Group is well positioned to continue benefiting from UK Government infrastructure spending commitments and we have a significantly increased order book of £9.8bn which gives us certainty against the market backdrop.

The new financial year has started well and we are trading in line with our expectations despite continued inflationary pressure and see no change in the current market outlook. We remain focused on the delivery of a sustainable net cash position and sustainable dividend policy in-line with our medium-term value creation plan.

Andrew Davies
Chief Executive

Our strategy

Group strategic framework

Our medium to long-term strategy focuses on leveraging our attractive market positions to deliver sustainable infrastructure services and construction to our customers.

Purpose
To sustainably deliver infrastructure which is vital to the UK

Vision
To be the UK's leading infrastructure services and construction company

Group strategy

- Focus on government, regulated or blue chip client base
- Operate in business to business markets
- Contracting through long-term frameworks

Strategic actions

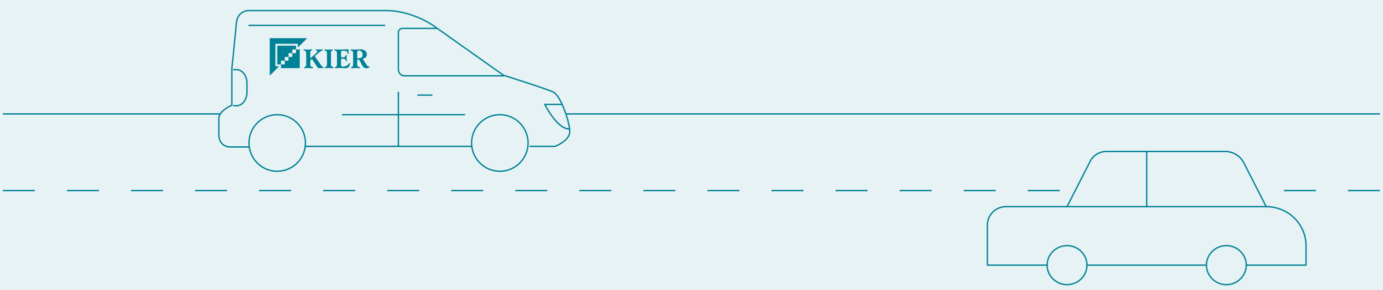
Disciplined Growth + Consistent Delivery + Generate Cash

Kier Proposition – key building blocks

An integrator and strategic partner	Breadth, depth and diversity of talent	Supply chain partnerships
Innovation and digitisation	A culture of Performance Excellence	Delivering sustainably

Our values

Collaborative | Trusted | Focused



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Objective 1

Leverage our attractive market share positions in growing markets

- Use Group's strategically positioned and locally established businesses in the UK to position the business in its core markets:
  - Highways
  - Utilities
  - Infrastructure Projects
  - Construction & Kier Places
  - Property

Our progress this year:

Highways

£1bn+

Highways work awarded in 2022

- Market-leading position (top three strategic highways and top three local highways)
- Established relationships with strategic clients on long-term frameworks typically 6–11 years
- Awarded over £1bn of work including:
  - Birmingham Highways contract extension;
  - National Highways Schemes Delivery Framework;
  - A66 Northern-Trans-Pennine scheme;
  - M6 Lune Gorge Structures; and
  - A417 Missing Link.

Utilities

90%+

over 90% of revenue comes from long-term contracts

- Top three contractor in water, energy and telecommunications sectors
- Fibre optic build partner to top three UK digital infrastructure providers
- More than 90% of revenue from long-term contracts and alliances
- Awarded several projects in the water industry:
  - deliver £66m improvement project at Mogden Sewage Treatment Works; and
  - an early works contract on a £75m improvement project at Alderney Water Treatment Works.

Infrastructure Projects

- Delivery partner on the largest section of the HS2 Phase 1 – Europe's largest infrastructure project
- 92% of contracts delivered under cost reimbursable contracts
- Continues to win new projects
  - Appointed by Network Rail to deliver the design and enabling works for the £65m Oxford railway station improvement project; and
  - Won a place on the £1.5bn Pagabo's civils and infrastructure framework.

Construction & Kier Places

- #1 UK national builder
- Strategic supplier to the Department for Education ('DfE'), NHS and Ministry of Justice
- Continue to win work in our chosen markets by being awarded a place on:
  - the £30bn Procure23 Framework to provide health care projects to the NHS in England and other public bodies;
  - the Procure Partnerships North West framework worth up to £1.8bn; and
  - Kier Places awarded £28m contract with whg to deliver improvements to over 4,500 homes.

Forward focus:

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

Property

- Focused on unlocking Government land as well as investing through both public and private partnerships
- Proven track record of delivery in the urban regeneration and property development market
- Continue to deploy capital with target to delivering a consistent ROCE of 15%:
  - Entered into a joint venture with PGIM Real Estate to develop a portfolio of light industrial and urban logistics warehouses across the UK; and
  - Partnering with Investec to develop a multi-unit 4.9 acre industrial scheme in Manchester under our Trade City JV.

Forward focus:

- Significant market opportunities driven by the Government's 'Levelling Up' agenda, hub programme and high street re-purposing driven by market changes.

Strategic actions:
- Disciplined Growth
- Consistent Delivery
- Generate Cash

2

Objective 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
- ESG is fundamental to our ability to win work and secure positions on long-term frameworks
  - UK Government contracts require carbon reduction plan commitment to achieve net zero (PPN 06/21)

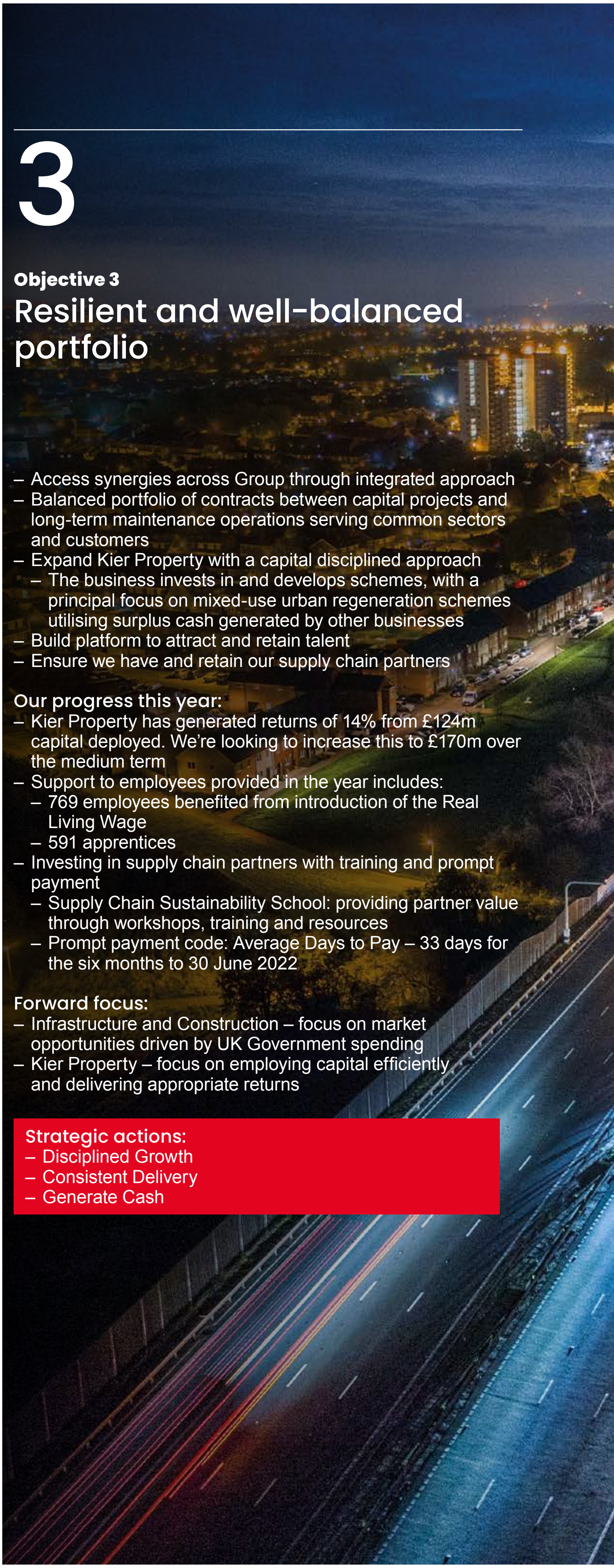
Our progress this year:

- Total orderbook of £9.8bn at 30 June 2022
- Positions on £124bn of frameworks for the UK Government and regulated entities
- Carbon, waste and water reduction commitments and progress made in the year of:
  - Scope 1 and 2 carbon intensity reduction of 31% from June 21 to June 22
  - Waste diverted from landfill 90%
  - Water usage reductions 67%

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

Strategic actions:
- Disciplined Growth
- Consistent Delivery
- Generate Cash



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Objective 3

Resilient and well-balanced portfolio

- Access synergies across Group through integrated approach
- Balanced portfolio of contracts between capital projects and long-term maintenance operations serving common sectors and customers
- Expand Kier Property with a capital disciplined approach
  - The business invests in and develops schemes, with a principal focus on mixed-use urban regeneration schemes utilising surplus cash generated by other businesses
- Build platform to attract and retain talent
- Ensure we have and retain our supply chain partners

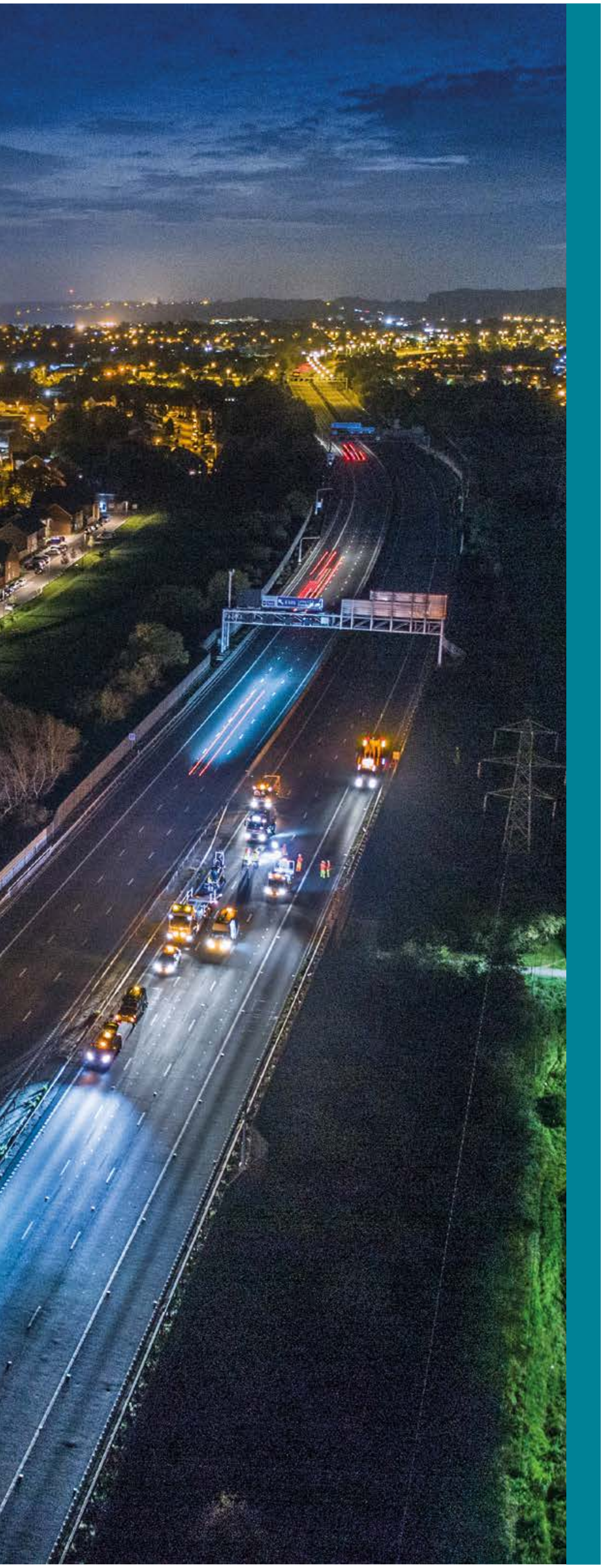
Our progress this year:

- Kier Property has generated returns of 14% from £124m capital deployed. We're looking to increase this to £170m over the medium term
- Support to employees provided in the year includes:
  - 769 employees benefited from introduction of the Real Living Wage
  - 591 apprentices
- Investing in supply chain partners with training and prompt payment
  - Supply Chain Sustainability School: providing partner value through workshops, training and resources
  - Prompt payment code: Average Days to Pay – 33 days for the six months to 30 June 2022

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

Strategic actions:
- Disciplined Growth
- Consistent Delivery
- Generate Cash



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Objective 4

Deliver strong organic and acquisitive growth, profitability and cash generation

– Leverage business model to access the growth opportunities from £650bn spend on infrastructure over the next 10 years
– Continue to prioritise cost management and disciplined capital allocation
– Selectively invest in acquisitive growth over the medium term adding to the Group's existing range of capabilities in its core markets
– Procurement by public bodies requires them to maximise social value under PPN 06/20

Our progress this year:

– Adjusted Operating Profit of £121m in FY22
– Delivered Free Cash Flow of £55m (FY21: £93m)
– Strengthened our culture of focus on sustainable earnings and cash
– Social value worth £296m delivered in six months to June 2022

Forward focus:

– Continue to grow the business organically
– Monitor risk at every stage of project delivery

Strategic actions:

– Disciplined Growth
– Consistent Delivery
– Generate Cash

Operational review

Infrastructure Services

£1.56bn
appointed to Pagabo Civils and infrastructure framework

£1.2bn
awarded a place on Northern Ireland Water's Major Projects Framework in joint ventures with BAM

Key highlights:
- Highways – awarded major highways maintenance works and services contracts by North Northamptonshire and West Northamptonshire Council
- Infrastructure – appointed to £1.6bn Pagabo Civils and infrastructure framework
- Utilities – awarded a place on Northern Ireland Water's £1.2bn Major Projects Framework in joint venture with BAM
- 83% of orders secured for FY23

Operational highlights

Revenue

2022	£1,667m
2021	£1,422m

Adjusted operating profit*

2022	£70.0m
2021	£65.3m

Adjusted operating margin

2022	4.2%
2021	4.6%

Reported operating profit

2022	£48.1m
2021	£41.4m

Order book

2022	£5.6bn
2021	£4.4bn

* Stated before adjusting items of £21.9m (FY21: £23.9m).

The Infrastructure Services segment comprises the Highways, Infrastructure and Utilities businesses. Infrastructure Services revenue increased 17% against the prior year, primarily due to the ramp up of capital works on HS2. Adjusted operating profit increased by 7% to £70m with a margin mix impact. Higher HS2 volumes were offset by growth of costs in Utilities.

The Highways business designs, builds and maintains roads for National Highways, Transport for London and a number of district and county councils. The business experienced a period of strong wins, including new contracts and contract extensions in Highways Maintenance, alongside the design and build of three National Highways Major Projects.

The marketplace is seeing a shift towards major projects with demand at unprecedented levels. Success in the Major Projects market requires relevant experience alongside a suite of skills and capabilities through the project life cycle, for which Kier is positioned strongly.

Contracts won include both North Northamptonshire and West Northamptonshire Council, Birmingham Highways contract extension, National Highways Schemes Delivery Framework, A66 Northern-Trans-Pennine scheme, M6 Lune Gorge Structures and A417 Missing Link.

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.

Our long-term relationships with key customers and joint venture partners ensures access to a good pipeline of work such as our joint venture with BAM being appointed by Babcock International on a refurbishment project at Devonport's 10 dock facility in Plymouth which is expected to run for 10 years. The business was also appointed to all 12 Lots of Manchester Airport Group's £700m Capital Works framework jointly with our Construction business.

The Utilities business delivers long-term contracts providing construction and maintenance services to the water, energy, and telecoms sectors. The Utilities business has seen higher activity in the telecoms sector with the UK Government's commitment to rolling out 5G connectivity to the UK. As a result, the business has increased its investment in contract mobilisation costs.

The business has continued to win work including a place on Northern Ireland Water's £1.2bn Major Projects Framework in joint venture with BAM. Utilising the depth of the Kier offer, this combines Utilities and Infrastructure strengths to deliver a turnkey solution for our client. The pipeline for attractive high-quality, long-term infrastructure work remains strong with opportunities to provide decarbonisation solutions to the energy sector.

Sellafield Retreatment Plant Project, Cumbria

The challenge
Kier was set challenging social impact targets by its client on its power plant decommissioning infrastructure project in Sellafield, Cumbria.

The targets are designed to contribute towards local employment, education and training, while supporting charities through donations e.g. time and labour.

The solution
Apprenticeships – we worked to upskill the workforce for in-demand trades by establishing partnerships with local colleges and have mentored young learners through apprenticeships and National Vocational Qualifications ('NVQs').

Work placement – work placement opportunities were made available to young learners, in collaboration with our sub-contractors and Kier has also visited schools to deliver more than 90 hours of workshops and mock interviews, reaching c.450 children.

Time and labour – Kier donated c.270 hours of time and labour, refurbishing a building used by Age UK in Cockermouth, enabling the site to be used as a safe space for the elderly.

In addition, our team members donated 275 hours of time to deliver a makeover at Lowther Street Hostel in Whitehaven, which houses young people aged between 16 and 24 years. The team decorated, assembled furniture, installed a new outdoor shelter, removed litter and cleaned up the garden in support of Kier's charity partner End Youth Homelessness.

The impact
The team exceeded their first year of social impact targets and won a social impact award for the positive effect it has had in the local area, benefiting young learners, those who have struggled to find employment and vulnerable people reliant on vital services.

Construction

86%
of orders secured for FY23

£33m
refurbishment contract for Manchester Aquatics Centre

£69m
design and construct a mixed-use sustainable building in London

£400m
HMP Full Sutton, a new prison in East Yorkshire

Key highlights:
- Won a significant number of contracts during the second half of the financial year such as a £500m contract to deliver new houseblock buildings across six prisons with Wates; awarded a pre-construction services agreement to deliver HMP Glasgow, a new prison on a 54-acre site in Scotland
- Margin improvement due to realignment of costs to anticipated lower revenue

Operational highlights

Revenue

2022	£1,441m
2021	£1,769m

Adjusted operating profit*

2022	£60.8m
2021	£56.7m

Adjusted operating margin

2022	4.2%
2021	3.2%

Reported operating profit

2022	£21.8m
2021	£40.7m

Order book

2022	£4.2bn
2021	£3.3bn

* Stated before adjusting items of £39.0m (FY21: £16.0m).

The Construction segment comprises the 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 reduced by 19%, as anticipated, due to deferred orders and delayed project starts. During the year we also successfully completed HMP Five Wells prison project in Wellingborough which resulted in a ramp down of activity.

However, in anticipation of the reduced revenue, we re-aligned our cost base. Accordingly adjusted operating profit increased 7% to £61m. Adjusting items of £39.0m include costs related to the restructuring of our Southern regional business and cladding rectification costs.

Contract wins have been strong during the year as reflected in a significantly increased order book from £3.3bn to £4.2bn. We were recently awarded a £500m contract to deliver new houseblock buildings across six prisons in conjunction with Wates and appointed by the MoJ to deliver a £400m prison in Full Sutton.

As a regional contractor, we continue to be 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 our Construction business has specialist expertise. However, during the year, we have seen UK Government procurement delays driven by cost inflation.

Our Construction business has continued to see a few deferrals in project awards caused by procurement delays. In addition, whilst we recognise the risk of cost inflation, we continue to mitigate this with our contractual agreements and ongoing tender selectivity and controls.

Our Kier Places business specialises in working in occupied properties both residential and offices, delivering maintenance, repairs, fire safety and compliance services. The business has benefited from increased work opportunities from existing customers, resulting in increases in both volumes and profitability.

It continues to win new work and was appointed to the £35bn CCS facilities management and workplace services framework as well as securing a place on Lot 2 of the £600m YORbuild3 Minor Works framework for four years.

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

St Sidwell's Point Leisure Centre, Devon

The challenge
Exeter City Council appointed Kier to build a new state-of-the-art leisure centre to replace the existing building. The building was required to incorporate a range of facilities and fit with Exeter's wider green initiatives, including its aim to be net zero carbon by 2030.

The solution
Kier built St Sidwell's Point using the ultra-energy efficient Passivhaus standard, making it the first leisure centre in the UK to be built this way.

Kier worked closely with its subcontractors to deliver a Passivhaus Passport training scheme, which equipped people working on the project with the knowledge and skills to meet the low carbon requirements.

The impact
The building has been modelled to withstand predicted changes in climate conditions up to 2080, it will save up to 70% on energy and carbon compared to the previous building.

The selection of materials and design of the building mean that its half a million annual visitors enjoy improved air quality, optimal air temperatures and natural lighting.

As well as the environmental benefits, we also created social value on St Sidwell's Leisure Centre. For example, Kier worked closely with Exeter Council to showcase the range of opportunities in the construction market, inspiring those wanting to join the industry by conducting 42 events for schools, colleges, construction organisations and community groups.

Property

8%
increase in revenue

£12m
adjusted operating profit increase

Key highlights:
- Announced an £80m equity residential joint venture with Housing Growth Partnership to develop urban brownfield sites
- Selected as a joint venture partner to Mole Valley District Council for the £350m regeneration of Leatherhead town centre
- Sold the newly built and 100% let Trade City scheme in Luton to abrdn

Operational highlights

Revenue

2022	£144m
2021	£134m

Adjusted operating profit*

2022	£17.6m
2021	£5.7m

Adjusted operating margin*

2022	12.2%
2021	4.3%

Reported operating profit

2022	£16.7m
2021	£2.3m

ROCE

2022	14%
2021	4%

* Stated before adjusted items of £0.9m (FY21: £3.4m).

The Property business invests and develops primarily mixed-use commercial and residential schemes and sites across the UK. The business is a well-established urban regeneration and property developer and largely operates through joint ventures.

Revenue increased 8% compared to the prior year due to the completion and sale of several properties particularly within the industrial sector. The revenue from our share of joint ventures increased by 66%.

Adjusted operating profit increased from £5.7m to £17.6m. The improved profitability and improved margin percentage has primarily been driven by industrial sector divestments.

The Group is focused on the controlled expansion of the Property business through selected investments and strategic joint ventures using a disciplined capital approach.

We expect to increase the average capital employed over time with a target of £140m–£170m with a consistent rate of capital investment at the level expected to help smooth out the returns profile of the business. As at 30 June 2022 capital employed was £122m.

In FY22, the Property business had a Return on Capital Employed ('ROCE') of 14% in FY22, a significant improvement on FY21.

Corporate

Adjusted operating loss*

£(27.9)m	2022
£(27.4)m	2021

Reported operating loss

£(41.5)m	2022
£(40.7)m	2021

* Stated before adjusting items of £13.6m (FY21: £13.3m).

The Corporate segment comprises the costs of the Group's central functions and have increased marginally year-over-year due to inflationary pressures being offset by continuous improvement initiatives.

Gravesend Trade City

The challenge
Kier Property has delivered more than 6m ft^2 of industrial space through its Trade City and Logistics City brands across 50+ schemes. In December 2021 it entered a £400m joint venture with PGIM Real Estate to develop a portfolio of light industrial and last mile urban logistics warehouses across the UK.

The solution
The Property team has a proven track record of delivering sustainable buildings, bringing economic life back to underutilised sites and maximising value.

Working with our existing occupiers and listening to their feedback we have been able to understand their drivers, allowing us to work with external specialist sustainability consultants to develop our product, ensuring it is sustainable, responsible, assessed and designed to meet BREEAM (Building Research Establishment Environmental Assessment Method) targets.

The impact
At Gravesend, we achieved 85% of available BREEAM credits in water and pollution and 10% reduction in carbon emissions. Our schemes have evolved to be market-leading in terms of environmental credentials, ensuring our developments, and the materials used, are sustainable and delivered to the highest institutional specification, targeting a minimum EPC rating of A and BREEAM Excellent.

In December 2021 Gravesend was sold to Legal & General's Industrial Property Investment Fund (IPIF).

Our marketplace

Market drivers

Market driver

Population growth

- Population expansion with people living longer, net immigration and mini baby boom
- Pressure on health, social and housing driving change

Market driver

Economic growth

- UK economic growth expected to slow given rising cost of living
- Construction industry historically used to stimulate economy

Market driver

Congested transport

- Congested roads, rails and airports given population growth and increased travel

Market driver

‘Levelling Up’ agenda

- Increased spending in previously deprived areas to narrow the UK’s regional inequality

Market driver

Climate change

- Energy supply shortage and rising demand driving investment
- UK Government’s commitment to net zero carbon

National infrastructure strategy

Market

In the National Infrastructure and Construction Pipeline, published in September 2021, the UK Government set out how £650bn of public and private investment will be implemented in projects across the UK over the next 10 years.

Kier's position

Kier's scale, leading delivery capability at both national and regional levels, operational delivery, processes and expertise enable Kier to take advantage of the significant and committed UK Government and regulated industry spend over the medium and long term.

Highways

Market Opportunity:

- National Highways: Road Investment Strategy 2: £27bn investment in England's strategic roads from 2020–2025
- 60% increase on Roads Investment Strategy 1 from 2015–2020
- Local Authorities: Requirement for investment in local authority roads increasing
- Local Authorities: Major planned projects afford significant opportunities across wider Group
- Project Speed and the new Acceleration Unit launched by Department for Transport ('DfT') in August 2020
- Sir Peter Hendy's Union Connectivity Review published in March 2021
- Managing the transport sector's response to changes resulting from climate change.

Kier's Market Positioning:

- Market-leading position (top three strategic highways and top three local highways)
- Integrator with unique in-house road design, construction and maintenance capabilities. Long track record of successful delivery
- Established relationships with strategic clients on long-term frameworks of typically 6–11 years
- Asset and investment management expertise. UK highways assets valued at £500bn driving ongoing demand for major projects and maintenance.

Top 3
market leading position in strategic and local highways

6–11 years
established relationships with strategic clients

Utilities

Market Opportunity:
- Water: England & Wales (Asset Management Plan 7 (‘AMP7’) – £50bn by 2024
- Water: Northern Ireland Price Control 21 (‘NI PC21’) – £2.1bn from 2021–2027
- Energy Distribution – GB Ofgem Pricing Framework ED1 (‘RIIO’) ED1 – £17bn by 2023
- Northern Ireland Regulatory Price Control for Electricity 6 (‘NI RP6’) – £657m by 2024
- Gas Distribution Price Control 2017 (‘GD17’) – £226m by 2023
- Gas Distribution – GIIO-GD2 £30bn by 2026
- Telecoms – roll out of fibre/5G connectivity by 2027
- Telecoms – Significant investment required for upgrade to the network predominantly by private sector spending
- Electric vehicle (‘EV’) – plans to roll out charging points

Kier’s Market Positioning:
- Key infrastructure provider of repairs, maintenance and capital projects to water, energy and telecoms sectors
- Long-standing customers operating in regulated industries
- Consistently delivering services to customers and executing on direct-delivery model
- Well positioned to maximise infrastructure roll-out opportunities in EV market given existing maintenance and installation capabilities

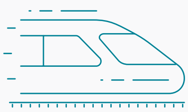
£17bn
energy distribution by 2023

£50bn
England & Wales water asset management plan by 2024

Infrastructure projects

Market Opportunity:
- £37–£53bn forecast cost ranges for HS2 Phases 2a and 2b
- Within rail there is also £50bn committed to Network Rail CP6 – CP7 procurement now underway
- Nuclear Power – £20bn for new nuclear build
- Nuclear Power – White paper commitment to a new power station c.£1.7bn
- Nuclear Power – Modular reactor commitment to support energy policy
- Water – AMP 7 Water commitment – £50bn
- Water – Canal and Rivers Trust framework
- Defence spending – £42bn in FY21
- Government priority to strengthen national security

Kier’s Market Positioning:
- Customer-focused approach
- Targets customers that offer repeat business through frameworks, and ownership of large asset bases
- Acts as the major projects experts, working with the rest of the business to leverage capability and relationships
- Robust risk management processes



£50bn
committed to Network Rail CP6

£42bn
defence spending in FY21

Construction

Education
Market Opportunity:
- 500 DfE school replacement projects over 10 years
- 209 further free school projects approved for DfE capital funding
- Commitment to additional SEND funding and further investment into Further Education

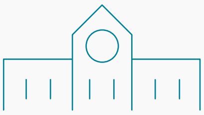
Defence
Market Opportunity:
- £3.2bn Defence Estate Optimisation Programme
- £1.75bn UK Strategic Command Pipeline
- £1.37bn US Infrastructure Programme
- £1bn Clyde Programme

Health
Market Opportunity:
- £1.5bn additional funding for building and maintaining hospitals
- £3.7bn New Hospitals Programme to be delivered by 2025

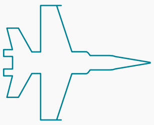
Commercial
Market Opportunity:
- Increase in refurbishment for agile working practices due to COVID-19
- Regional focus

Justice
Market Opportunity:
- 20,000 new prison places required
- £4bn committed over four years
- c.£200m per annum of estate maintenance

Kier's Market Positioning:
- A leading UK builder with attractive market positions and regional footprint to take advantage of the UK Government's committed spend
- Track record of successful delivery with design, operational and support capability
- Long-standing collaborative relationships across chosen sectors and a 'strategic supplier' to the UK Government
- Contracting through frameworks providing competitive advantage, consistency and visibility over revenue streams



500
DfE school replacement projects over 10 years



£3.2bn
Defence Estate Optimisation Programme

£3.7bn
new Hospitals Programme to be delivered by 2025

Increased
refurbishment for agile working practices due to COVID-19

Property – Urban Regeneration and Property Developments

Market drivers

Market driver

Climate change

- **Legislation change** – driving obsolescence in real estate market
- **ESG** – net zero carbon, wellbeing and attracting and retaining employees, a key driver of demand
- **Regional relocation** – businesses relocating to regional cities due to growth of millennial population and improved infrastructure
- **Energy efficiency** – crucial factor in home moves

Market driver

Population growth

- **Population growth** – 65+ age group is expected to see highest rate of population growth over the next two decades
- **Households** – increase in single person households
- **Ownership** – increased demand for build to rent
- **Supply** – shortage of housing and restrictive planning policies

Market driver

Changing consumer trends

- **Demand** – significant demand for high-quality large scale warehouses
- **Logistic vacancy rate** – rate currently < 3%
- **Global supply chains** – stockpiling and onshoring
- **Technology** – growth in AI, robotics and automation driving demand

Market Opportunity:
– Urban regeneration:
– High street repurposing
– Supply shortage – one third of Local Authorities currently do not have a 5-year housing supply
– Growth in urban population
– Post-graduation retention rates in regional cities

'Levelling Up' Agenda:
– 'Levelling Up' agenda – increased spending in previously deprived areas
– Relocation of parts of the UK civil service
– Devolution and city mayors driving regional growth

Hub Programme:
– National Infrastructure spending – £650bn committed over 10 years
– This includes development and regeneration of local sites

Kier's Market Positioning:
– Well-established relationships with land-owners and local authorities providing access to a large land bank
– Proven track record of delivery in the urban regeneration and property development market. Experienced team with in-house capability
– Commercial and operational synergies with Kier's other businesses
– Potential to deliver consistent ROCE of 15%

15%
potential ROCE

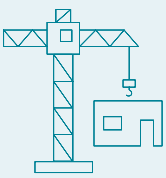
Addressable market

Construction

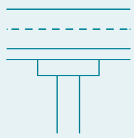
1. Commercial 24%
2. Industrial 2%
3. Public non housing 12%
4. Repair and maintenance private 2%
5. Repair and maintenance public 11%

Infrastructure Services

6. Infrastructure other new 18%
7. Infrastructure other repairs, maintenance and improvements 9%
8. Roads new 18%
9. Roads repairs, maintenance and improvements 4%



£24bn
Construction



£23bn
Infrastructure Services

UK construction market

The overall UK construction market is estimated to be worth £174bn[1] in 2022, having recovered from the impacts of the global COVID-19 pandemic. As the market benefits from expected and announced increases in Government spending current forecasts show that this is expected to grow to £181bn[1] by 2024.

Addressable market

The Group's addressable market is estimated at £23bn for Infrastructure Services and £24bn for Construction. The Group serves this market through its three segments: Infrastructure Services, Construction and Property.

The **Infrastructure Services** segment is focused upon three main markets, Highways, Utilities and Infrastructure.

Highways – designs, constructs and maintains strategic and local road networks. It provides its customers with services including the delivery of emergency response and reactive maintenance to critical infrastructure.

Utilities – repairs and maintenance of essential services to the Water, Energy and Telecoms sectors. Its customers are largely regulated by government agencies such as OFWAT for water and OFGEM for gas and power companies.

Infrastructure – high value and complex construction and civil engineering projects for sectors such as Nuclear, Roads and Rail are services provided by our Infrastructure business.

The **Construction** segment specialises in the design, build and integration of projects for both the public and private sector. Our work is delivered from regional offices but providing national coverage for customers. The key sectors served include education, health, justice and defence.

The **Property** segment covers Urban Regeneration and Property Development. It 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 its operations and client relationships. It therefore serves the Infrastructure Services and Construction market.

The importance of Frameworks

Frameworks are our main route to market as nearly all major public sector work is awarded through to those companies who have won places on Frameworks. Kier remains focused on maintaining and growing our positions on both local and national frameworks. We have places on agreements with an advertised value of up to £124bn (Official Journal of the European Union (OJEU values)) as at 30 June 2022 across all of our core markets covering both national and regional geographies as well as market sectors.

In our Infrastructure Services segment we have places on six national and 27 regional frameworks with a total advertised OJEU value of c.£16bn.

In Construction we have been awarded places on 16 national and 32 regional frameworks worth £108bn. Our positions on frameworks underpin the work we have undertaken across our core markets and we are well-placed to benefit from the UK Government's continued commitment to infrastructure spending.

[1] CPA Construction Industry Forecasts 2022–2024 Summer 2022 Edition.

Our key stakeholders

Our business performance comes from the contribution of both our internal and external stakeholders. Our values contribute to Kier benefiting all of them and our approaches to each one are set out in this section.

Our colleagues, customers, shareholders, supply chain partners, banks, lenders, sureties and insurers, pension trustees, joint venture partners and the UK Government are all key stakeholders. We connect with them at all levels of our business through our frontline operations, support teams and our businesses, our senior leadership team, the Executive Committee and the Board and its committees.

We engage with stakeholders in lots of different ways – from virtual meetings and conferences to reviews, forums and webcasts. To understand how well we're engaging with different groups, the Board and its committees receive regular updates and use them to make better decisions, and provide feedback and constructive challenge on activities, programmes and initiatives being considered.

Read more about our values online
www.kier.co.uk

Shareholders

The owners of the Group backed Kier with significant investment during the 2021 capital raise and therefore engagement with them is very important.

Their expectations are:

- To generate long-term sustainable shareholder returns through the execution of our strategy
- To restart paying a dividend for which we have a policy which targets paying one at a dividend cover of around three times cover across the cycle.

What we've done

We communicate regularly with shareholders through our website, the Annual Report, trading statements and we held a Capital Markets Day in May 2022. Shareholders had an opportunity to meet the Executive Management team at Kier and understand the Group's operational capabilities.

We manage relationships with institutional investors through an investor relations programme. It includes one-to-one conversations, roadshows, group meetings and conferences. During the year, the Chairman also met investors to discuss governance related matters.

Ahead of the 2021 AGM, the Remuneration Committee chair consulted extensively with our largest shareholders and their representative bodies to discuss our executive remuneration.

During the year we held our AGM which afforded a chance for the Board to meet and engage with shareholders in person.

Customers

Our business is based upon long-term relationships and our regional structure helping us to win places on Frameworks and winning high-quality and profitable work through our position as a key strategic partner.

Their expectations are:

- 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
- Supporting our main customer base, the UK Government, through our ESG activities, supporting our customers on their path to achieving net zero carbon emissions by 2050.

What we've done

We ensure that the Group maintains good relationships with all key customers including continued engagement by the Chief Executive and other members of the Executive Committee and other senior management. The Board receives regular reports covering customer feedback allowing the Group to more effectively plan and deploy resources to those areas of key focus. We continue to win work through our longstanding client relationships through our regionally-based operations and our focused approach to key market segments.

Kier operates several regional forums, such as the Northern Cities Forum, West Midlands Forum and the London and the South East Forum, helping develop a proper local approach benefiting customers. We engage with local and regional authorities such as the Greater Manchester Combined Authority, the Tees Valley Combined Authority and the West Midlands Combined Authority with representatives of all Kier businesses serving their particular area to ensure we fully engage and collaborate maximising all stakeholders.

Colleagues

Kier is a people-based business and our performance as a Group depends upon our ability to attract and retain a dedicated workforce of c.10,000 employees.

Their expectations are:

- Our workforce is skilled, motivated and competitively compensated
- The safety, health and wellbeing of all our employees is our number one priority, and it remains of paramount importance
- We have policies and programmes in place to provide an inclusive work environment.

What we've done

The Board receives regular updates from the Chief Executive and the Chief People Officer on our colleagues, progress against key people strategy initiatives, culture and overall sentiment within the organisation.

In FY21, we realigned the HR and Group safety, health, environment and assurance (SHEA) functions to establish better links between our people and our Responsible Business goals. The changes will ensure greater alignment and a focus on driving better employee wellbeing and engagement. This change ensures that we can incorporate our Responsible Business Approach (incorporating health, safety, wellbeing and sustainability) into our broader people strategy leading to Kier becoming a safe, sustainable and attractive place to work.

We have issued our Diversity & Inclusion ('D&I)' roadmap to ensure that everyone within the organisation has their voice heard and the different experiences people bring will help make Kier a better business. It is important that we reflect the diversity of the communities we serve and our inclusive culture champions diversity of thought, background and experience.

We also ensure that all senior managers, as well as the Board, undertake visible leadership tours across the Group's offices and sites. The Executive Committee also held roadshows across Kier to explain the strategy and our medium-term value creation plan to our employees.

Supply chain partners

Our supply chain partners are key to the success of the Group. They help us deliver the products and solutions to benefit our stakeholders. It is therefore imperative that the Group has an ethical, sustainable and resilient supply chain.

Their expectations are:

- Pay them in line with our agreed terms
- Collaborate with them to benefit all stakeholders
- Help them optimise their own supply chains.

What we've done

During the year, we have focused on investing in our supply chain partners through two key methods – training and prompt payment.

We are founding members of the Supply Chain Sustainability School which is available to everyone who works in the construction, and infrastructure sectors. It covers such topics as Waste & Carbon, Fairness Inclusion and Respect and The Modern Slavery Act as well as many more sustainability issues.

Through the Supply Chain Sustainability School, we have provided our supply chain partners with access to workshops, training and other resources such as online courses.

Our latest Duty to Report on Payment Practices and Reporting submission covering the period from 1 January 2022 to 30 June 2022, the Group's aggregate average payment days was 33 days (H1: 34 days) and the percentage of payments made to suppliers within 60 days was 89% (H1: 92%).

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 3
day payment requirements for small and medium-sized firms. To further support local supply chains, we have spent 48% of subcontracted expenditure with small and medium-sized enterprises (SME's).

UK Government

As a 'strategic supplier' to the UK Government, Kier has an important role in building and maintaining UK infrastructure. The UK Government has committed to spending £650bn on national infrastructure over 10 years.

UK Government contracts require net zero carbon and social value commitments. In addition, as part of the Construction Playbook, contracting authorities are expected to consider sustainability and options that support the UK Government's wider priorities.

Their expectations are:

- Maximise social value effectively and comprehensively
- Assist in the delivery of the carbon reduction plan
- Competitive bidding.

What we've done

As one of the UK Government's 'strategic suppliers' we regularly engage with representatives of the Cabinet Office as well as central, regional and local procurement bodies as part of the bidding and delivery of projects.

In addition, we provide feedback to the public policy development process through roundtable discussions. We participate in stakeholder meetings, workshops and receptions.

Kier has committed to creating £5bn of social value by 2030 as well as net zero carbon targets.

To capture social value creation, we are using a new calculator, Thrive. Alongside this we have launched a social deprivation mapping tool, LM3. This tool measures Kier's spend geographically. It uses the UK Government's indices of deprivation in 2019 to show where our spend maps to deprived areas. Kier's spend is directed at supporting those communities targeted by the UK Government's 'Levelling Up' agenda.

For our carbon reduction plan, we are targeting net zero carbon across operations and supply chain by 2045. For further details on our progress to date, please see page 46.

Joint venture partners

In order to ensure that we offer stakeholders the best solutions we often use joint venture partners to deliver projects, such as with HS2 and Luton DART. The Property business will often form joint ventures with public and private sector bodies to help them deliver their expected outcomes, such as the Solum joint venture with Network Rail to develop underutilised land around stations in the south east of England.

Their expectations are:

- Kier and the partner work together to deliver the agreed outcomes
- Risks to be shared and mitigated.

What we've done

The Group has continued to deliver the HS2 project as agreed through our EKFB joint venture and ensures that there is regular contact between our management teams and our delivery partners to ensure that we are meeting the expectations of another of our stakeholders, the UK Government.

Banks, lenders, sureties and insurers

As providers of banking, debt and other financial support they are key stakeholders unpinning the growth of the Group.

Their expectations are:

- Commitment to generate cash from operations, reduce net debt and strengthen the balance sheet
- Meet our covenant obligations.

What we've done

The Group's management has regular meetings with our financial partners, ensuring stakeholders have sufficient confidence in the performance of the Group. We report our covenant calculations every six months.

The Group ensure effective cash forecasting and working capital management through robust quarterly forecasting, monthly management accounts and continued monitoring of our financial position.

Pension Trustees

The trustees are responsible for ensuring our colleagues' pension schemes are run properly and that the benefits for the members are secure.

Their expectations are:

- Kier continues to fulfil our commitments under the deficit reduction plan
- That clear and open communication is maintained between trustees and the Group.

What we've done

The Group has continued to make deficit reduction payments as agreed and regular meetings between the Group and the trustees have been maintained. Work has started on the latest triennial actuarial valuations for the Kier Group and May Gurney schemes, both for 31 March 2022, and the results of these will be reflected once completed.

Our business model

We hold attractive positions in our markets where we operate with scale, leading delivery capability at both national and regional levels, operational delivery processes and expertise.

We are a long-established, leading UK infrastructure and construction supplier with c.100 years' experience.

Kier provides specialist design and build capabilities to manage and integrate all aspects of a project

- 'Strategic supplier' to the UK Government with key strengths in education, health, justice and defence
- Experienced in delivering large scale civil engineering projects, leading highways and utilities provider and established urban regeneration and property developer
- **Live projects** – c.400 live projects across the UK at any given time
- **Order Book** – A strong order book worth up to £9.8bn across key sectors
- **Frameworks** – Places on long-term contracts worth up to £124bn and framework agreements, creating barriers to entry and long-term revenue streams.

What we do

Highways

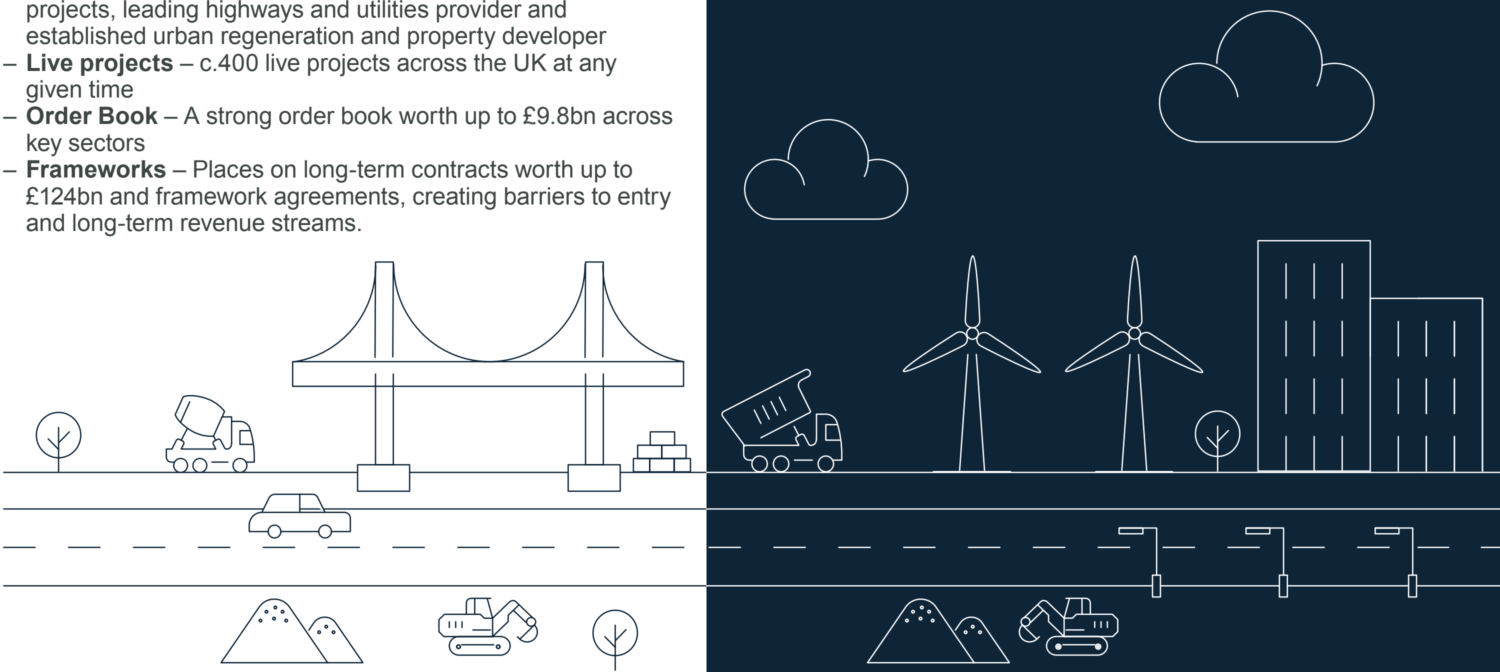
We design, construct and maintain roads in the UK

Our Highways business works nationally on motorways and other strategic roads for National Highways and also for various local authorities.

Infrastructure

We deliver major and complex infrastructure and regional civil engineering projects

We deliver a number of high value, complex and often critical UK civil engineering projects using extensive in-house capabilities, as well as joint venture structures to ensure the best solutions are offered to customers, backed up by our experience as a systems integrator.



Utilities

We repair and maintain and support capital projects utilities

Our Utilities business provides repairs, maintenance and capital projects to the water, energy and telecoms markets.

Our Water business manages and maintains assets for several companies such as Anglian Water and Thames Water.

Our Energy business supports electricity connectivity for 12m properties including new connections for our customers such as UK Power Networks and Western Power Distribution. We are the only gas distribution contractor in Northern Ireland.

Our customers include Phoenix National Gas, Firmus Energy and SGN Natural Gas.

Our Telecommunications business installs high-speed fibre optic networks for major suppliers.

12m

maintaining electricity to c. 12m properties

Property

We invest in land, property and brownfield sites to redesign and regenerate towns and cities

Our Property business invests and develops sites across the UK acting as a mixed-use commercial and residential developer, specialising in urban regeneration, last mile logistics and modern sustainable office developments working in joint venture with public and private sector clients who value our expertise as a systems integrator.

Kier Places

We provide housing and facilities maintenance services

The business specialises in providing two main services:

- An integrated facilities management service for public sector clients with specialist teams who have mechanical and electrical expertise.
- We also provide housing maintenance services for local authorities, housing associations and social landlords with capabilities including maintenance, fire safety, remediation, capital works and decarbonisation.

Construction

We design, integrate and project manage the construction of buildings for public and private sectors including schools, hospitals and prisons

Our Construction business is a national building offering a regional service through our 26 offices throughout the UK. The local footprint allows us to provide consistent local teams who build client and site knowledge, support collaboration with national and local clients, SME's and communities.

We have key relationships in education, health, justice and defence which is aligned to the UK Government infrastructure spending priorities as well as being key to delivering their environment and social value commitments.

£5bn

delivered almost £5bn of primary, secondary and tertiary education facilities in the past 15 years

How we do it

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 as-build phases
- **Support** – structural and civil engineering designers providing technical advice and support across our network of UK offices.

Project management

- **Managing** highly complex projects across business units
- **Design**, integration and delivery capabilities
- **Working** with multiple stakeholders

Performance excellence

In FY20, we launched Performance Excellence to provide consistency in our approach to people, projects, processes, cash management and future ways of working.

Our Performance Excellence culture, which is underpinned by our values; collaborative, trusted and focused is supporting our focus on continuous improvement across the Group and helping us to deliver on our Purpose – to sustainably deliver infrastructure which is vital to the UK.

Each business within the Group has now certified compliance with Performance Excellence, providing assurance that the Group does, and will continue to, share best practice and look for continuous improvements across the Group and has applied the governance required under its Code of Conduct and Operating Framework.

A responsible approach to sustainability

ESG is fundamental to our ability to win work and secure positions on long-term frameworks. To successfully win contracts with the UK Government, bidders have to show that they can meet net zero and social value commitments under procurement policies such as PPN 06/20 and 06/21. As over 90% of Kier's revenue is derived from the public sector and regulated clients, our ability to win work is dependent on delivering on our ESG commitments. Our sustainability framework Building for a Sustainable World provides three key areas of focus:
- **Environment** – pollution prevention, sustainable procurement, net zero carbon, zero avoidable waste and biosphere protection
- **Social** – building for tomorrow, diversity and inclusion, our social value and purpose, employee wellbeing and retention and protecting human rights
- **Governance** – operating responsibility, governance, health and safety and risk mitigation.

£296m
social value output for 6 months to end June 2022

The value we create

Shareholders

We deliver financial returns for reinvestment back into the business and for our shareholders

- **Shareholder returns** – we aim to generate long-term sustainable shareholder returns through the execution of our medium-term plan
- **Dividend** – our medium-term plan outlines our dividend policy. This policy targets dividend cover of around three times earnings across the cycle
- **Financial strength** – Investment – strong, resilient and flexible balance sheet, providing capacity to invest.

People

Our people are at the heart of our business

Our purpose is to sustainably deliver infrastructure which is vital to the UK, and our people are at the heart of our business.

Our people use their skills, knowledge and creativity to provide solutions to clients and customers and we are looking to bring a new generation of talent into the construction industry. We ensure that our employees have skills and experience from a range of locations, sectors and backgrounds to reflect the communities where we work. We have various entry points to the Group, including graduate and apprenticeship opportunities. Kier offers our colleagues such things as; excellent career development opportunities, a comprehensive rewards and benefits package, enhanced family-friendly policies, an exciting new Kier Green Car Scheme and much more.

- **Workforce** – ensure that our c.10,000 employees are skilled, motivated and competitively compensated
- **Safety** – safety, health and wellbeing of all our employees is our number one priority
- **Equality, Diversity and Inclusion** – we have policies and programmes in place to provide an inclusive work environment.

Supply chain

We are able to operate at scale through the collective strength of our supply chain partnerships

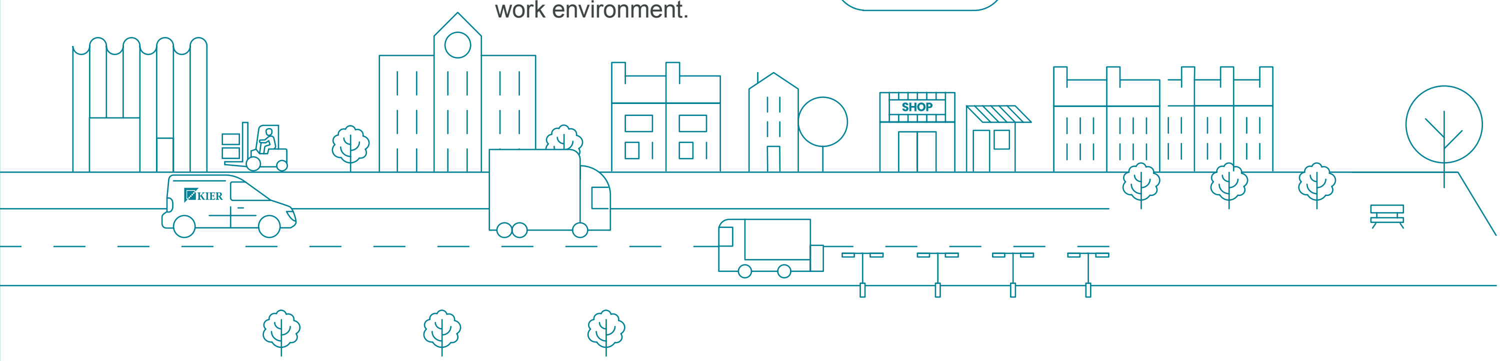
Our supply chain partners are key to the success of the Group. They help us deliver the products and solutions to benefit our stakeholders. It is therefore imperative that the Group has an ethical, sustainable and resilient supply chain. During FY22 Kier spent 48% of subcontracted expenditure with SMEs.

- **Collaboration** – we work to build strong, collaborative relationships with our suppliers including investing in supply chain partners with training and prompt payment, for example:
- **Supply Chain Sustainability School** – Providing partner value through workshops, training and resources
- **Prompt payment code** – Average Days to Pay – 33 days for the 6 months to 30 June 2022
- **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

We are mindful of our impact on communities and society

- We benefit many communities through the creation of employment and continued support of employees,
- **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
- **Measuring Social Value** – Launched our new social value calculator during FY22 identified social value output of £296m in 6 months to 30 June 2022
- **Social Deprivation Mapping Tool** – introduced our LM3 tool to measure Kier's spend in socially deprived areas
- **Kier Foundation** – independent charity donated c.£2.4m to over 700 charities.



Our key performance indicators

Financial

Total Group revenue including joint ventures[1]

No change

£3.3bn

2022	£3.3bn
2021	£3.3bn

Revenue for the Group from continuing operations including joint ventures
Group revenue was flat year over year which reflected volume growth in Infrastructure Services offset by the anticipated reduced revenues from Construction.

Adjusted operating profit from operations[1,2]

Increase

£120.5m

2022	£120.5m
2021	£100.3m

Operating profit for the year before adjusting items
Group profit before adjusting items has increased despite reduced revenue. This is principally due to management actions to reduce costs and increased property transactions compared to FY21.

Adjusted earnings per share [1,3]

Decrease

16.8p

2022	16.8p
2021	25.0p

Earnings per share for the year generated from operations before adjusting items
Adjusted earnings per share has fallen despite the increased profit due to the increased weighted average number of shares.

Order book

Increase

£9.8bn

2022	£9.8bn
2021	£7.7bn

Secured and probable future contract revenue not currently recognised in the financial statements
The order book has increased significantly as the Group continues to win new, high-quality and profitable work.

Net cash – 30 June[4]

Decrease

£2.9m

2022	£2.9m
2021	£3.0m

Net cash at the year-end date
The net cash has remained consistent to the prior year.

Net debt – average[4]

Decrease

£(216.1)m

2022	£(216.1)m
2021	£(431.9)m

Average monthly net debt for the year
The average net debt has reduced significantly due to receipt of the capital raise, Kier Living sale proceeds and free cash flow generation.

Cash – free cash flow[4]

Decrease

£54.6m

2022	£54.6m
2021	£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 projects.

1 See consolidated income statement on page 148.
2 See note 5 to the consolidated financial statements.
3 See note 11 to the consolidated financial statements.
4 See note 21 to the consolidated financial statements.

Non-financial

Safety – Group Accident Incidence Rate ('AIR')

Increase

115

2022	**115**
2021	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 115 and 12-month rolling All Accident Incident Rate ('AAIR') of 316 represent an increase of 9% and a decrease of 5% respectively compared to FY21.

We retain a solid safety record and maintain high safety standards in our industry. We plan to address the AIR through our new behavioural programme.

Our restructured approach is designed to create a greater focus on workplace wellbeing. Investing in this will ensure our people stay healthy, energised, valued and supported.

Customer experience

No change

91%

2022	**91%**
2021	91%

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

We remain stable with 91% customer satisfaction. Our focus on working in partnership with our clients and customers will continue in FY23 as a workstream of our Performance Excellence culture.

Employee engagement

Increase

63%

2022	**63%**
2021	59%

Achieve continuous improvement scores in employee engagement surveys

We have continued with our quarterly pulse surveys to record employee engagement. Topics explored this year have included employees' connection to Kier, recognition, support and confidence in the business. We have seen a positive set of employee engagement results which demonstrate the impact that our actions are having on employee engagement.

Our emotional engagement index is 63% for the last 12 months.

Payment performance

Decrease

33 days

2022	**33 days**
2021	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 34 days at 30 June 2021 to 33 days at 30 June 2022.

Scope 1 and 2 carbon intensity

Decrease

11.9 $tCO_2e/£1m$

2022	**11.9 $tCO_2e/£1m$**
2021	17.2 $tCO_2e/£1m$

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

We have achieved a 31% decrease in our carbon intensity for business operations compared with FY21 and a 48% decrease against our FY19 baseline.

We will continue to build on these successful reductions in line with our pathway to net zero. 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.

Baselined scope 3 carbon intensity

New

293.5 $tCO_2e/£1m$

2022	**293.5 $tCO_2e/£1m$**
2021	N/A

Reduce the greenhouse gas emissions via our indirect operations per £m revenue

This year we have introduced scope 3 reporting to progress towards net zero carbon by 2045. During FY23 we will develop interim targets aligned to our pathway to net zero following this baseline year.

Building for a Sustainable World

Andrew Davies
Chief Executive

Dear shareholder

Welcome to Kier's FY22 ESG report.

As a reminder, Kier's purpose is to sustainably deliver infrastructure which is vital to the UK. As a 'strategic supplier' to the UK Government, environmental, social and governance is fundamental to our ability to win work and secure positions on long-term frameworks. The UK Government contracts above £5m require net zero carbon and social value commitments.

Our ESG report outlines our commitments and our progress against those commitments.

Sustainability framework

Last year, we launched our new sustainability framework, 'Building for a Sustainable World' which covers sustainability from both an environmental and social perspective.

Our framework is based on ten pillars and follows the guiding principles of the 17 United Nation's Sustainable Development Goals ('SDGs').

We believe that to be a responsible business and to play a leading role in our industry, we must address both the impact of climate change and leave a lasting legacy in the communities in which we operate.

Environmental

This year we published our first Task Force on Climate Related Financial Disclosure ('TCFD') report. The report outlines our assessment of climate-related risks and opportunities with respect to our operations, against the four key areas of governance, strategy, risk management as well as metrics and targets. It highlights how we are managing these risks and opportunities and their short, medium or long-term impact on the Group. You can find this from page 66 onwards.

Carbon emissions

We have set out our pathway to become net zero carbon for business operations by 2039 (scope 1 & 2), value chain (scope 3) by 2045 together with interim targets. We achieved a 31% year-over-year reduction in carbon emissions from our business operations (scope 1 & 2) in FY22. We also started reporting on our scope 3 emissions for the first time.

Waste

We have committed to being single-use plastic-free by 2030 as well as targeting to eliminate avoidable waste by 2035. We achieved a 29% year-over-year reduction in the volume of non-hazardous construction waste in FY22.

Water

We have committed to reducing our water usage over the long term. We achieved a 67% year-over-year reduction in FY22.

Social

We also make commitments on social value. Our target is to create £5bn in social value by 2030.

Thrive

In order to record our social value creation, we moved to a new social value calculator in FY22. Thrive has over 100 social value metrics and has the ability to track social value targets across our bidding activity and live projects. It links back to the UK Government's Social Value Model.

Thrive will enable Kier to quantify and benchmark its positive contribution against other companies.

Kier Foundation

We celebrated 10 years of our independent registered charity, The Kier Foundation. Our charity has raised £2m for over 700 charities with the support of our employees.

Diversity and Inclusion

We launched our diversity and inclusion roadmap last year. As part of our journey to becoming a more diverse workplace, in FY22 we began our Empower programme, a reverse mentoring initiative which enables Kier employees from under-represented groups to mentor members of the Executive Committee and senior leadership teams.

In addition, we continue to train employees as part of our Expect Respect campaign.

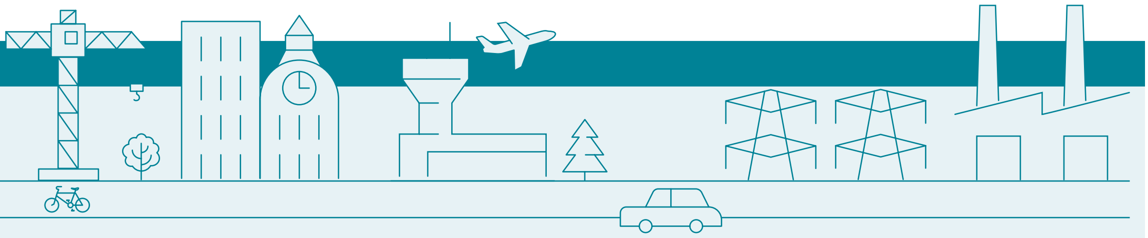
Governance

Our ESG Committee oversees the adoption of our sustainability framework and commitments. This is the first year our ESG Committee has been in operation.

We believe 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

2022 highlights



Environmental

Carbon – scope 1 & 2 – reduction in carbon intensity of 48% against our FY19 baseline. This represents a 31% reduction against our FY21 performance, from 58,622 tCO_2e to 38,635 tCO_2e

- Scope 3 – this is the first year of reporting scope 3 emissions. For data gathering purposes, the baseline has been realigned to the 12 months ended 31 March 2022. We will be reporting on this basis going forward. Accordingly, our scope 3 emissions were 907,501 tCO_2e
- Established commitment to achieve net zero by 2045
- Our Pathways to Net Zero include a series of interim milestones to reduce carbon emissions by 65% from business operations by 2030 and to become net zero carbon in our business operations by 2039

Waste – a 29% year-over-year reduction in the volume of non-hazardous construction waste from 4.9 m^3/£100k revenue in FY21 to 4.5 m^3/£100k revenue in FY22.

- Construction waste (materials and packaging) diverted from landfill – 90% of total FY22 waste

Sustainable procurement

- Collaboration with supply chain partners on reducing fuel requirements through use of sustainable fuels
- Continued supply chain training and education
- Procurement function graded as ‘mature’ against the ISO 20400 framework for sustainable procurement
- Ensured adherence to UK Government Prompt Payment Code

Biosphere Protection:

- **Water** – a 67% year-over-year reduction in the cost of water as a percentage of our operational spend from 0.03% in FY21 to 0.01% in FY22
- **Biosphere**: Recommendations from biosphere assessment incorporated into FY23 plan

Social

Social value – generated £296m of social value in 6 months to June 2022 predominantly by supporting Small Medium Enterprises (‘SMEs’).

Safety – 12-month AIR 115 increased 9% and the 12-month AAIR 316 decreased 5% compared to the prior year.

Supplier payments

- Days – year-over-year payment days reduction from 34 to 33
- Invoices – 89% of invoices paid within 60 days. Consistent with prior year
- SMEs – £908m of expenditure across the Group which includes spend through several public sector frameworks

Employees

- **Apprenticeships** – 591 apprentices participating in apprenticeship programmes in FY22, 6% of our workforce
- **Graduates** – graduate intake comprising 38% women in FY22
- **Diversity and inclusion** – launched Empower programme, targeted at Kier employees from under-represented groups. Designed to reduce barriers in progressing to leadership roles. Continued to deliver Expect Respect Training for all employees
- **Wellbeing** – developed and implemented new health, safety and wellbeing strategy and launched new behavioural programme.

Governance

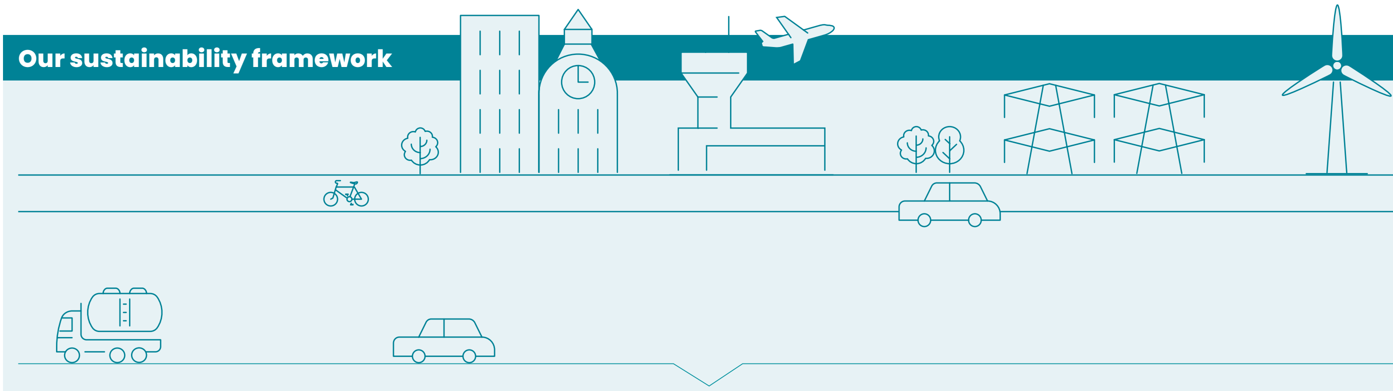
ESG committee – first year of operation for ESG Committee and first year of reporting in accordance with TCFD.

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

Risk – continue to monitor governance matters through annual BSI audits on IS014001, 45001 & 9001 compliance, Integrated Operational Assurance Statement and processes as well as operating assurance statements.

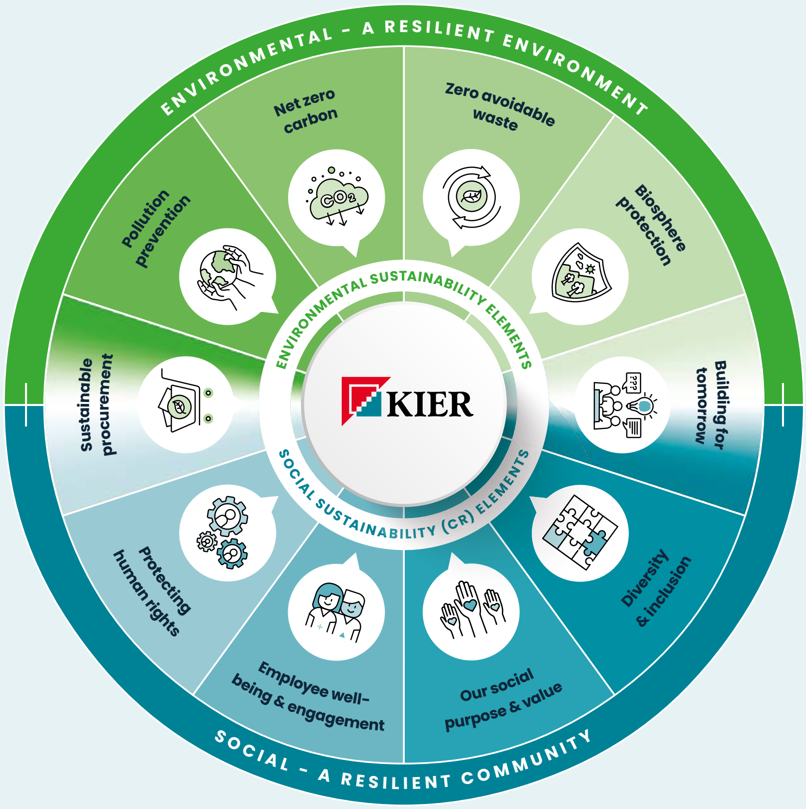
Internal policy centre continues to support the Group’s efforts in governance focus areas such as modern slavery, anti-bribery and corruption, data protection and whistleblowing matters.

Our 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.



Long-term targets

2030
reduce carbon emissions from business operations by 65% by 2030

2045
net zero for business operations and value carbon by 2045

2030
single-use plastic-free by 2030

2035
elimination of avoidable waste by 2035

2030
create £5bn of social value by 2030

Pollution prevention

Relevant SDGs

Strategic objective

Protecting the environments that we work within is important to Kier. We continue to train, support and audit our projects to minimise the risk of pollution.

Why it is important

We work across a wide variety of rural and urban habitats in the UK, which can be vulnerable to pollution. To prevent damage to these environments or negative impact on the communities in which we work, it is essential that we minimise pollution.

Target

Prevent pollution from all operations within our control and measure all environmental incidents across the Group.

Progress in FY22

Our All Environment Incidence Rate ('AEIR') remained stable from 220 in FY21 to 227 in FY22.

We plan to widen our reporting next year to include our HS2 joint venture, EKFB within our AEIR metric.

Supply chain collaboration

Our pollution prevention working group has collaborated with our supply chain partners and delivered key initiatives such as:

– A pollution prevention equipment catalogue;
– A bespoke spill response training programme; and
– 24-hour access to an emergency response spill contractor.

The working group has increased focus on air pollution prevention, including prioritising low air emission plant and equipment. We continue to deliver on our avoidable pollution incident reduction targets and seek to employ innovation, new technology and best practice in pollution prevention.

Non-Road Mobile Machinery ('NRMM')

NRMM consists of any mobile machinery, transportable industrial equipment or vehicle fitted with an internal combustion engine not intended for passenger or goods transport by road. Our NRMM has to meet tight emissions standards for particulates and nitrous oxides in London as set by Greater London Authority.

The standards are tightening and other geographies outside of London have started to introduce similar requirements.

In FY22, we were 100% compliant with the NRMM regulation within London. In addition, we sampled 30 projects in the UK (outside of London) against the NRMM requirements. Although the NRMM requirements were not applicable to these projects, this exercise was undertaken to address air quality on a national scale. Of the 30 sampled projects, 26 sites had NRMM qualifying plant (37–560 kW) and 60% of these were in line with the London NRMM requirements. We will continue the exercise next year in order to reduce our impact on local air quality.

Priorities for FY23

– Develop air quality management standards and guidance;
– Promotion of further NRMM compliance;
– Develop standardised water management plan and guidance; and
– Further development of pollution prevention training.

Net zero carbon

Relevant SDGs

Strategic objective

We have set the target of achieving net zero carbon across our business operations (scope 1 & 2) and value chain (scope 3) by 2045.

Our pathway to achieving this target is aligned to the Science Based Targets initiative ('SBTi') with the Business Ambition for 1.5°C. We are signatories to the following 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; and
- Supply Chain Sustainability School's Plant Charter.

We are aligned to the following:
- Climate Group's Renewable Energy 100 ('RE100');
- Energy Productivity 100 ('EP100'); and
- Electric Vehicles 100 ('EV100').

We are committed to delivering energy efficiency through improvements in technologies and innovation.

To align with the requirements of these commitments, and to maintain progress towards our net zero carbon target, we are also working to the following interim targets:
- 65% reduction in business operations carbon (scope 1 & 2) by 2030;
- 100% electric vehicles or alternative zero-carbon fuels for our own fleet by 2030;
- 100% renewable electricity by 2030;
- Net zero offices by 2030;
- 40% reduction in project embodied carbon by 2030;
- Net zero business operations carbon (scope 1 & 2) by 2039, without offsetting; and
- Net zero for onsite plant and equipment by 2040.

Why it is important

As a responsible business, it is our duty to reduce and avoid any negative impact we have on the climate. With the diverse range of public sector and blue chip customers we work with and sectors that we work in, we have a unique opportunity to change the landscape of the UK-built environment for the better.

It therefore remains a strategic objective for us to deliver on our net zero commitments and support our clients in doing the same.

Target

- Scope 1 & 2 – a year-over-year reduction in carbon intensity
- Scope 3 – now that we have reported on our scope 3 emissions, a year-over-year reduction in scope 3 emissions.

Progress in FY22

Business operations (scope 1 & 2)

During FY22, we saw the benefits of some of the initiatives we implemented last year such as the electrification of our fleet.

In FY21 we signed up to EV100, committing to the electrification of our 3,730 fleet of vehicles and supporting our employees to adopt electric vehicles ('EVs') by installing charging infrastructure at 30 of our locations by 2030.

We also refreshed our company car list, providing at least five electric vehicle options for every car grade, and further options for plug-in hybrid electric vehicles ('PHEV') and hybrid vehicles. We also launched the Green Car Scheme which allows employees to lease ultra-low emission vehicles through a salary sacrifice scheme.

Our Utilities business has been supporting the wider Group with the installation of EV charging infrastructure across our estate, and our employees continue to benefit from discounted rates for home chargers.

Collectively, these activities have seen the uptake of EV and PHEV company car orders increase to 20% and 57% respectively, in the past 12 months. This compares to 9% in the previous 12 months for EVs, and 51% for PHEVs.

We continue to work collaboratively with our supply chain to identify opportunities and run trials to substitute the use of carbon intensive plant and equipment. Where trials demonstrate environmental benefit, we have and will continue to embed these practices into our standard way of working.

Following several successful trials throughout the business, we have introduced a requirement for battery storage units to be used, where appropriate, in conjunction with all generators.

Through collaboration with our supply chain partner, all projects requiring generators for temporary power are individually assessed, and battery storage units are used to significantly reduce fuel consumption.

Alternative fuels will form a key aspect of our strategy over time to tackle the unavoidable energy demands of our sites. In June 2022 we started trials of hydrogen generators in Construction and Highways in partnership with our supply chain. These trials are a key step towards a transition to net zero off-grid power.

As a strategic supplier to the UK Government, in September 2021 we also published our Carbon Reduction Plan in line with Procurement Policy Note 06/21, setting out our net zero targets, commitments, pathways, and performance.

Value chain (scope 3)

This year we have reached a significant milestone by reporting our scope 3, value chain carbon emissions.

The categories we report against within scope 3 have been aligned to the ENCORD Construction CO_2e Measurement Protocol:

– Vehicle fuel (excluding scope 1 & 2 vehicle fuel);
– Public transport;
– Subcontractors & suppliers;
– Waste; and
– Materials.

We have also included four additional categories to reflect our carbon footprint including employees, equipment, property & assets, water and other.

With our scope 3 carbon comprising 96% of our total carbon footprint, the value chain carbon reporting has been important in helping us to identify ways to accelerate our net zero carbon strategy.

Table 1: GHG emissions data on financial year basis (scope 1 & 2)

	Year ended 30 June 2019 (FY Baseline)		Year ended 30 June 2021		Year ended 30 June 2022	
GHG emissions data	UK	Global	UK	Global	UK	Global
Scope 1 (tonnes CO_2e) Combustion of fuel and operation of facilities	74,139	86,839	44,315	53,175	33,199	34,748
Scope 2 (tonnes CO_2e) Electricity purchased						
– Location-based	8,430	8,468	5,416	5,447	3,865	3,887
– Market-based	7,014	7,051	356	387	308	329
Total scope 1 & 2 (tonnes CO_2e)						
– Location-based	82,569	95,307	49,731	58,622	37,065	38,635
– Market-based	81,153	93,890	44,671	53,562	33,507	33,507
Intensity measurement (tonnes CO_2e per £m revenue)						
– Location-based	20.0	22.7	14,8	17.2	11.4	11.9
– Market-based	19.7	22.4	13.3	15.7	10.3	10.8
Energy Usage						
Energy consumption Total energy consumed (kWh)	322,631,000	374,771,000	206,212,000	243,203,000	159,169,114	165,784,911

Notes to Table 1:
1 Location-based uses the average emissions intensity from the grid where we source the energy.
2 Market-based uses the emissions intensity based specifically on the energy mix procured.

Table 1 above details our statutory carbon footprint for FY22 (scope 1 & 2).

Total emissions from our business operations carbon (scope 1 & 2) for the year was 38,635 tCO_2e which equates to 11.9 tonnes per £m revenue.

This represents a 31% decrease in carbon intensity compared with FY21, and a 48% reduction against FY19.

This decrease is due, in part, to the carbon reduction initiatives undertaken by our businesses, primarily relating to fleet electrification and use of alternative fuel sources.

Scope 1 fugitive emissions are not included as the data is not available. Reported data excludes joint ventures as well as historic and international operations which are not operating.

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.

GHG emissions data (scope 3)

This is our first year of reporting scope 3 carbon emissions.

Given the volume and timing of data collation, we have re-aligned our GHG emissions data reporting to the 12 months ending 31 March instead of our previous year ending 30 June. We plan on reporting on this basis going forward.

Accordingly, for comparability, we have restated our prior year GHG emissions (scope 1 & 2) reported data from 30 June to 31 March for baseline, 2021 and 2022. See Table 2.

Our scope 3 emissions reporting excludes parts of the business where insufficient data is available. However, the scale of these exclusions is not material.

Market-based emissions have been calculated since 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 green energy tariffs. In previous years the market-based figure was based on supplier averages as published via fuel mix disclosures on their websites.

We continue to improve our reporting practices to provide increased accuracy into our scope 3 emissions.

Table 2: Restated GHG emissions data (scope 1, 2 & 3)

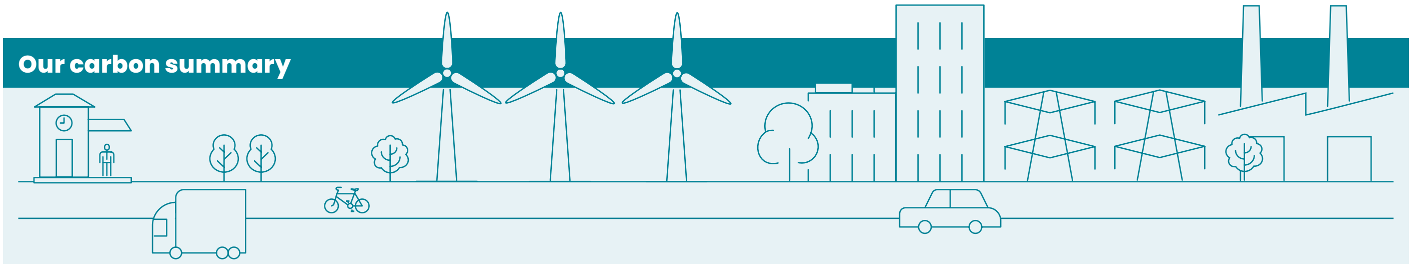
	Year ended 31 March 2019 (Restated Baseline)		Year ended 31 March 2021 (Restated)		Year ended 31 March 2022	
GHG emissions data	UK	Global	UK	Global	UK	Global
Scope 1 (tonnes CO_2e) Combustion of fuel and operation of facilities	77,468	89,490	45,075	56,117	36,113	38,643
Scope 2 (tonnes CO_2e) Electricity purchased						
– Location-based	7,132	7,170	5,274	5,304	4,543	4,569
– Market-based	5,934	5,970	346	387	298	324
Scope 3 (tonnes CO_2e)	n/a	n/a	n/a	n/a	n/a	907,501
Total scope 1 & 2 (tonnes CO_2e)						
– Location-based	84,600	96,660	50,349	61,421	40,656	43,212
– Market-based	83,402	95,460	45,421	56,504	36,411	38,967
Total scope 1, 2 & 3 (tonnes CO_2e)						
– Location-based	84,600	96,660	50,349	61,421	948,157	950,713
– Market-based	83,402	95,460	45,421	56,504	943,912	946,468
Intensity measurement (tonnes CO_2e per £m revenue)						
Scope 1 & 2						
– Location-based	21.0	24.0	13.3	16.2	12.6	13.3
– Market-based	20.7	23.7	12.0	14.9	11.2	12.0
Scope 1, 2 & 3						
– Location-based	21.0	24.0	13.3	16.2	292.7	293.5
– Market-based	20.7	23.7	12.0	14.9	291.4	292.2
Energy Usage						
Energy consumption (scope 1 & 2) Total energy consumed (kWh)	330,568,000	380,090,000	210,794,000	256,835,000	169,551,000	179,465,000

Notes to Table 2:

1 Location-based uses the average emissions intensity from the grid where we source the energy.

2 Market-based uses the emissions intensity based specifically on the energy mix procured.

Our carbon summary



Our commitments:

Our pathway is aligned to the Science Based Targets initiative ('SBTi') which provides companies with a pathway for reducing carbon emissions based on the latest climate science.

We have reconfirmed our commitment to SBTis and the Business Ambition for 1.5°C. Additionally, we remain 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
- Supply Chain Sustainability School's Plant Charter
- Climate Group's Renewable Energy 100 ('RE100'), Energy Productivity 100 ('EP100') and Electric Vehicle 100 ('EV100')

2030 interim targets:

These commitments also mean that by 2030 we must achieve 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.

Carbon reduction plan FY23:

To achieve our targets, we have produced a carbon reduction action plan for FY23, 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
- Electrification of our commercial vehicles
- Mandating battery storage units to support generator down-sizing and fuel reductions
- Rolling out Flywheel technology to minimise fuel consumption for tower crane operation
- Sizing generators correctly relevant to their purpose and phase of the project
- Electrification of mobile plant where possible
- Continue trialling the use of alternative fuels such as Hydrotreated Vegetable Oil ('HVO'), hydrogen and biofuels

Zero avoidable waste

Relevant SDGs

9 Industry, innovation and infrastructure; 12 Responsible consumption and production; 13 Climate action; 14 Life below water; 15 Life on land

Strategic objective

We define avoidable waste as waste being generated at every stage of a project's life cycle and, at the end of life, recovering products, components and materials at the highest possible level of the waste hierarchy while ensuring minimal environmental impact.

Our objectives are to achieve zero avoidable waste by FY35 and single-use plastic-free by FY30.

To deliver these objectives we challenge our projects, waste contractors, materials providers and suppliers to implement circular solutions and project specific waste reduction plans.

Why it is important

Delivering our zero avoidable Waste strategy will contribute significantly to our scope 3 carbon reduction. Supported by data, a reduction in our waste will reduce costs to our business and in turn our clients.

We have committed to 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.

Target

– To reduce year-over-year construction waste from our Construction business as well as demolition and excavation waste from our Infrastructure Services and Construction business units. Sustainable and compliant reuse and repurposing of material.

Progress in FY22

Construction waste (Construction only):

– Reduction in volume of non-hazardous construction waste from 4.9 m^3/£100k revenue in FY21 to 4.47 m^3/£100k revenue in FY22, a year-over-year reduction of 29% from FY21. Construction waste reporting covers 48% of the Group by revenue for FY22
– Diversion from landfill (materials and packaging) – 90% of total FY22 landfill waste (FY21: 87%).

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

– Demolition waste diversion from landfill 95% of total FY22 demolition waste (FY21: 91%)
– Excavation waste diversion from landfill 86% of total FY22 excavation waste (FY21: 83%).

Throughout the year a number of waste reduction initiatives have been delivered and these have contributed to the delivery of our waste reduction target.

We have continued to improve our data collection and accuracy, while developing the waste audit process to validate data collection.

CL:AIRE protocol

Our projects on the Environment Agency Collaborative Delivery Framework in the South West have been using the CL:AIRE protocol, a Code of Practice that promotes sustainable remediation of contaminated land and groundwater to assist in the reduction of classified waste.

This facilitates the ease of reuse which in turn benefits both the project and the environment and enables the use of excavation arisings from other, local contractors. The protocol has significantly reduced costs related to importing fill materials and reduced carbon associated with transport.

On the Environment Agency's Par & St Blazey Flood Alleviation Scheme, Kier used the CL:AIRE protocol to reclassify excavated material and reuse 2,600t of fill material from the local area, resulting in a reduction of 12,200 HGV km and 11tCO_2e related to transport distances.

Washing service

Our A13 project successfully trialled both the Hard Hat Recycling Scheme and Personal protective equipment commercial washing services from a supply chain partner.

As well as preventing used PPE (Personal Protective Equipment) going to landfill, the washing service provided a cost saving of over £300. This initiative is scalable for the business and when rolled out fully will contribute to reducing waste volumes and cost savings.

Priorities for FY2023

– Further develop our waste reduction strategy.

Biosphere protection

Relevant SDGs

Strategic objective

The biosphere, which is defined as the parts of Earth where life exists, provides basic life support systems and all the resources we rely on as a business.

We focus on the impact that our operations have on the planet's biosphere and introduce new ways of working to ultimately have a positive impact.

Why it is important

The biosphere and the protection of life on land and water is linked to all aspects of our operations. The work we undertake can have a lasting positive or negative impact upon the environment. We take this responsibly seriously and constantly strive to ensure the impact is positive.

To deliver on our responsibilities, it's key to understand the impact that our operations can have on nature. As we understand more and more, we can then develop our bio-diversity strategy further to mitigate any negative impacts and further develop the positive impacts.

The initiatives we develop to further protect nature and better serve the environments we operate in will also help us to robustly report on nature-related financial disclosures.

Target

– To reduce the year-over-year cost of water.

Progress in FY22

In FY22 the cost of water as a percentage of operational spend was 0.01% in comparison to 0.03% in FY21.

As part of our commitment to mitigate the impact of our operations, we need to measure our use and conservation of water. Our water consumption baseline was set in FY21.

Assessment

We have undertaken a biosphere impact assessment of our operations. The assessment examined our key activities across a sample of our sites and assessed our impact and dependencies on nature. The key recommendations from this study have been used to populate an action plan for progression in FY23.

Competitions

To help raise the awareness of biodiversity loss, we have continued to sponsor and promote the CIRIA BIG Biodiversity Challenge, encouraging biodiversity improvements both internally and within our supply chain.

We have also launched two biodiversity competitions:
– Kier Depots in Bloom (internal); and
– Business in Bloom (external).

These competitions encourage the creation of green space for the use of both wildlife and people within predominately grey landscapes such as depots and site compounds. They improve not just the spaces themselves but also the wellbeing of those who use them.

Priorities for FY23

– Further develop our biodiversity strategy;
– Develop a Kier Group biodiversity handbook; and
– Launch Kier Depots in Bloom competition.

Sustainable procurement

Relevant SDGs

Strategic objective

Sustainable procurement considers economic, environmental, and social impacts alongside the more traditional quality and price elements when procuring goods and services.

At Kier we understand that procurement decisions have a significant ripple effect through the value chain, and having visibility of, and understanding those impacts is critical to building ethical, sustainable and resilient supply chains.

Why it is important

Sustainable procurement is linked to a number of the pillars across both the social and environmental aspects of our framework and is a key enabler to successfully delivering on our objectives.

Target

– Targeted spend of £2bn with our valued supply chain including Voluntary, Community and Social Enterprises ('VCSEs') across the UK's socially deprived areas by 2030.

Progress in FY22

– £880k spent with VCSEs in FY22.

Technology initiative

During the year, Kier completed the construction of the Shakespeare North Playhouse, through collaborating across the supply chain, the project trialled the use of the PUNCH Flybrid Ltd Flywheel technology to assess if the innovation could reduce the energy required to power a static crane.

The main objectives of the trial were to reduce greenhouse gas emissions, and provide social value benefits to the surrounding community, including reduced air pollution and less traffic movements and congestion. The trial showed that the fuel consumption was reduced by around 40%.

This technology is now being used across the industry on multiple projects saving a significant amount of carbon emissions. We've also been working to embed this technology with our suppliers and within our procurement processes ensuring that its use is considered on every project.

Shared fuel requirements

We have been working in partnership with our key supply chain partners to consolidate our shared fuel requirements, to remove duplication. We wanted to provide a cost-effective offering to our supply chain; particularly small and medium-sized enterprises, to help them reduce their costs and make sustainable fuels more accessible. This will be implemented over the next year to help build a more resilient supply chain.

Supply Chain Sustainability School

Our industry has a number of key enablers who provide support and guidance to main contractors and the supply chain. Kier was a founding member of the Supply Chain Sustainability School and in the last year we've doubled the value our employees and our supply chain partners generate from working with the school. We actively participate in working groups and have plans to further embed it within our business, aligning it with our learning and development strategy next year.

Standards

During the year we've been working closely with Constructionline (who work with construction buyers and suppliers) on a number of initiatives to break down the barriers for entry into our industry without compromising on standards. We have been an instrumental part in Constructionline now offering free Gold Memberships to social enterprises, providing them with both the financial and technical support they need to meet the Common Assessment Standard.

Other

During the year we worked with Action Sustainability to provide an independent assessment against the ISO 20400 framework for sustainable procurement. It was assessed as a mature function.

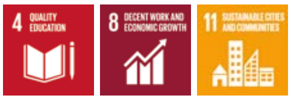
Over the next two years we'll be developing our systems and processes further to achieve a 'Leading' rating, cementing the function as a procurement centre of excellence.

Priorities for FY23

– Launch supply chain excellence initiatives; and
– Develop a sustainable procurement toolkit for our supply chain.

Building for tomorrow

Relevant SDGs



Strategic objective
Drive innovation for our stakeholders, industry and communities.

Why it is important
Building for Tomorrow ensures that we never stand still when it comes to ESG and that we keep driving forward future-focused Kier initiatives both within the Group and externally.

Taking inspiration from teams and individuals within Kier, as well as learning from best practice in other organisations, means that we can deepen our understanding and credentials when it comes to supporting clients, supply chain and employees to deliver on their sustainability ambitions too.

Targets
- Establish the Kier ‘Sustainability Lab’ to generate sustainability ideas and innovations;
- Establish Kier as a leading sustainability business within the built environment and beyond; and
- Develop partnerships to drive forward sustainability initiatives.

Progress in FY22
Sustainability Lab
Established in 2021, Kier’s Sustainability Lab is an employee-led innovation hub that brings together experts and advocates from right across Kier’s business to drive forward new initiatives or to bring critical mass to existing ones. Throughout the year, this has supported:
- A No Vehicle Idling trial in Kier Highways which was successful and has now been expanded across Kier’s entire vehicle fleet in each business;
- Expansion of the use of Passivhaus standards in building design to deliver energy savings and improved health and wellbeing outcomes for occupants. As Passivhaus is still in its infancy, Kier developed ‘Passivhaus Passports’, a specialist certification for its operatives to improve the skills’ base to support greater uptake of Passivhaus principles across our projects and the industry as a whole;
- Leading discussions with local authorities to support the expansion of electric vehicle infrastructure;
- Working with social sustainability experts to link social deprivation mapping to Kier’s local spend; and
- Working in partnership with the Ocean Conservation Trust, a leading conservation charity, to provide practical support and expertise to protect stored carbon and ocean habitats.

Forums
We are working on how we can make ourselves more visible and involved in the sustainability conversation which involves actively engaging with the UK Government and third parties. This includes joining organisations such as Future Cities becoming a ConstructZero Business Champion and ensuring our experts are engaged in forums such as the Greater Birmingham Chamber of Commerce Good Business Forum to discuss our sustainability goals with stakeholders and peers outside of Kier.

UK Government
During the year we also brought together local authority leaders and chief executives at the Local Government Association Conference in Harrogate to discuss how Kier could work with local government to co-create solutions that support decarbonisation and placemaking.

By bringing together Kier’s collective capability from across its business streams, we believe we can play a much greater strategic role in both these areas to support current and future local authority clients to reach their environmental and community targets.

Priorities for FY23
- Establish a digital offering for Kier employees to contribute ideas to the Sustainability Lab; and
- Develop and launch a workstream with key clients to understand their perception of our commitment to and action on sustainability.

Ocean Conservation Trust

We have supported global conservation charity, the Ocean Conservation Trust ('OCT') through a design and engineering led competition to design solutions that protect seagrass beds.

In recent years, up to 90% of the UK's seagrass has disappeared. While causes are varied, damage by boat moorings as anchors and chains that drag across the seabed, contribute towards this and it is particularly problematic in tourist hotspots.

The competition provided an exciting opportunity to draw upon the engineering expertise that Kier has across the Group to design an Advanced Mooring System, which would keep boats safely secured, while protecting vital seagrass habitats from damage caused by moorings.

Diversity & inclusion

Relevant SDGs

Strategic objective

Provide a working environment where everyone has their voice heard. Where the different experiences people bring will make for a better business.

Why it is important

It is important that we reflect the diversity of the communities we serve and our inclusive culture champions diversity of thought, background and experience.

Targets

- Our Diversity & Inclusion ('D&I') roadmap outlines the D&I milestones we are aiming to achieve from now until FY26. This can be found on our website;
- We continue to drive progress against this roadmap and regularly review the plan to ensure it meets the aims of the business; and
- In the long term, our aim is to be a workplace where everyone belongs, and we truly believe that being an inclusive workplace is morally and ethically the right thing to do. We want to increase the amount of people we employ from under-represented groups and to improve our data reporting.

Progress in FY22

Employee networks

A fundamental part of the roadmap are our employee networks and these comprise groups that are committed to creating a diverse and inclusive workplace through clear action plans.

We now have six established employee networks who act as the voice of our people. The Kier Inclusion Network, Racial Inclusion Network, Gender Inclusion Network, Ability Network (Disability & Neurodiversity), LGBT+ & Allies Network and the Armed Forces Network.

These networks are voluntary groups of employees that come together periodically based on shared identity or life experiences. They create a supportive environment to bring people together.

There are now over 550 employees engaged in the networks, which is 6% of employees. Each network has at least one Executive Committee sponsor and follows an action plan to support the development of the network.

Policies

We continue to support the review and development of policies to ensure we are an inclusive business where people can bring their whole selves to work. In the past year we have reviewed and introduced policies or guidance such as:

- Family-friendly policies – enhanced maternity leave, paternity leave, adoption, surrogacy, pregnancy loss policy; and
- Gender expression and gender identity policies.

Developing our people

Expect Respect

Over the year we have upskilled our people giving them the knowledge and skills to help us become an inclusive business. This has included D&I awareness training for all employees; Expect Respect Training for all employees which educates and empowers employees to build an inclusive workforce; upskilling webinars for line managers; inclusive recruitment training for recruiting managers and training for business leaders on driving change.

Empower programme

During the year we have launched our new Empower programme. This is targeted at Kier employees from under-represented groups and is designed to break down barriers in progressing to leadership roles. This programme involves reverse mentoring where participants are paired with a member of our Executive Committee and senior leadership teams. The aim is for leaders to understand the employee experience for under-represented groups. It aims to raise awareness, reduce those barriers and make Kier a more inclusive place to work.

Developing leaders

Our management development programmes, in partnership with Cranfield University, give our high potential employees the opportunity to further their careers. We want to build an environment where all our employees can develop their skills and talent as they move up the organisation.

All abilities

Our Highways business is a Disability Confident Leader and has achieved Masters in Diversity. Our HS2 joint venture is a Disability Confident Employer, enabling people of all abilities to come into the workplace.

Gender pay gap

Our D&I roadmap outlines where we want to be by 2026, including reducing our gender pay gap by 25%.

We are passionate about developing our people and providing them with the tools, knowledge and drive to progress in their careers into more senior roles across the business.

Our FY22 gender diversity at Board and senior managers level as a percentage of the workforce and our overall gender diversity remains similar to FY21. With our D&I roadmap in place, we are targeting incremental change over the long term.

Our FY22 ethnic diversity remains similar to FY21. Similar to gender, we are aiming for our roadmap to have an effect over time.

Approximately 25% of our ethnicity diversity is not disclosed by our employees. We aim to make further progress in improving our data collation going forward.

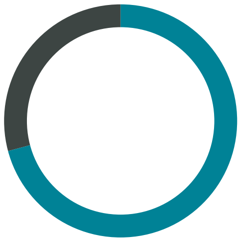
We know there's more to do in attracting people from diverse backgrounds into Kier, and we are committed to breaking down the barriers to entry at Kier and our wider industry. The aim is for Kier to be an inclusive, supportive place to work and the work we are doing in this space is going to have a positive impact for our employees.

Priorities for FY23

– Continue to drive the D&I roadmap; and
– Improve data reporting for ethnic diversity.

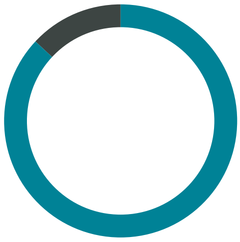
Gender diversity

Board



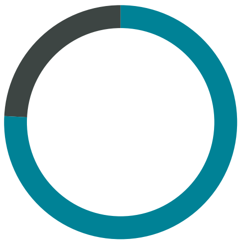
- Male 71%
- Female 29%

Senior managers



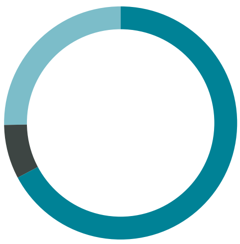
- Male 87%
- Female 13%

All employees
%



- Male 76%
- Female 24%

Ethnic diversity
%



- White 67%
- Ethnic minority 8%
- Not disclosed 25%

Our social purpose & value

Relevant SDGs

Strategic objective

This pillar focuses on opportunities to provide both social and environmental value for the communities our operations impact, focusing on the most vulnerable and disadvantaged members of our society.

Why it's important

This is an important part of delivering on our social purpose, which is tackling inequality by giving individuals and communities tools and opportunities to create brighter futures. It is also key to winning work by ensuring we deliver on the commitments made through both Procurement Policy Note ('PPN') 06/20 Social Value Model and additional client requests.

Targets

- Working with our supply chain, employees and the community to generate £5bn of social value
- Create brighter futures for 500,000 individuals by 2030.

Progress in FY22

- £296m social value for six months to June 2022.

This year we have been embedding the new Thrive tool. As such, throughout this next year we will continue to refine the reporting process to provide an accurate baseline in FY23.

Thrive

In order to measure our social value creation, we transitioned to a new social value calculator, Thrive, in January 2022.

Thrive replaces Kier's existing tool and uses the Impact Evaluation Standard ('IES'), a collection of metrics, and proxy values designed in conjunction with a consortium of social value experts to measure our social value creation.

We continue to engage with teams across the Group to ensure we capture data on a wide range of metrics from spend with small and medium-sized enterprises to training hours.

LM3

Alongside Thrive we launched LM3, which has been developed by the New Economic Foundation.

This maps our local spend data from Thrive and overlays it on to Office for National Statistics deprivation data to highlight where we have positively impacted regional areas in the UK.

The measures used are identified by the UK Government's 2019 Indices of Deprivation and it has given us the opportunity to see where we can better distribute our spend to continue benefiting the communities we operate in and deliver meaningful social value to the most challenged geographies.

The Kier Foundation

The Kier Foundation is an independent registered charity with a vision to build a dynamic and engaging charity that will be a force for change and lead the way in social impact and employee wellbeing across Kier.

In May 2022, charity champions, fundraisers and charities met to celebrate 10 years of the Kier Foundation. In the past decade, thanks to the support of Kier employees, the Foundation has raised over £2m for over 700 different charities.

Since Kier's partnership began with our current charity partner, End Youth Homelessness ('EYH') in August 2020, Kier has raised c.£300,000.

This has supported over 160 young people by providing personalised support to help them on their skills, education and training journey. We have funded support to help young people find and keep a home of their own through the EYH housing fund.

Through our Christmas campaign we paid for 600 young homeless people to have somewhere safe to stay on Christmas Eve and to enjoy a dinner on Christmas day. Kier people donated over 440 Christmas presents for the young people to open and enjoy.

As well as this we have also supported EYH with £84,000 worth of volunteer work through our Do-It-Yourself challenge programme to improve their living environments in shared accommodation.

We have extended our partnership with EYH until June 2023.

Volunteer days

Each Kier employee is able to use two paid days leave a year to volunteer for causes close to their hearts.

Members of Kier Highways senior leadership team recently lent a hand at the Welcome change community garden in Birmingham. The garden is open to the public for a few hours every day and provides a safe space for people who are feeling lonely, need support, or anybody wishing to volunteer and learn a new skill.

The team worked to transform the space so that it could be ready for the community to begin planting.

Priorities for FY23

– Continue to capture social value creation using Thrive; and
– Continue to encourage employees to use their volunteer days to work with causes and community projects.

Employee wellbeing & engagement

Relevant SDGs

Strategic objective

We will create a culture where our people are empowered and where positive mental, physical and financial wellbeing is proactively supported.

Why it is important

Safety is our licence to operate. We're committed to investing in our people to create a positive safety culture where everyone feels trusted, empowered and acts with integrity. Engaging with our supply chain as a responsible contractor and delivering best in class service to our clients.

The wellbeing of our people has never been more important. The challenges the world has faced in recent years has provided a sharper lens for Kier to view the importance of our greatest asset, our people.

Targets

- Improved year-over-year safety, wellbeing and engagement; and
- At least 50% of our colleagues feel emotionally engaged with Kier.

Progress in FY22

- 63% employee engagement achieved in FY22 compared to 59% in FY21.

During the year we realigned the HR and Group Safety, Health, Environment and Assurance ('SHEA') functions to establish an improved connection between our employees and our Responsible Business goals. We are targeting to increase alignment over time and to improve employee wellbeing and engagement.

The changes mean we can incorporate health, safety, wellbeing and sustainability into our broader people strategy. The aim is to make Kier a safe, sustainable and attractive place to work.

We have also refined our meaning of Health, Safety and Wellbeing to reflect our continuously changing business:

Health at Kier

A positive working environment promoting physical, mental and social health. Proactively engaging with our people to lessen levels of stress and anxiety, cultivating employee satisfaction and engagement in a thriving workplace.

Safety at Kier

Safety at Kier is our licence to operate. A key priority for the business is to ensure each and every person on our projects, in our offices and members of the public we interact with go home safe every day.

Wellbeing at Kier

Supporting our people to feel well, happy, and positive at work, building relationships, learning new skills and enhancing life experiences. A positive healthy state – physically, emotionally, and economically.

Safety

The Group's 12-monthly rolling Accident Incident Rate ('AIR') of 115 represents an increase of 9% compared to 105 in FY21. The AIR rate is calculated by headcount and therefore volume adjusted. It equates to 28 RIDDOR incidents in FY22 compared to 29 in FY21.

We are disappointed with the AIR trend given our high standards. This will continue to be an area of focus. We retain a solid safety record that is c.58% better than industry benchmark.

The Group's 12-month rolling All Accident Incident Rate ('AAIR') of 316 represents a decrease of 5% compared to FY21.

In May 2022 we launched a new behavioural programme across Kier. The programme is designed to create an environment where our people feel empowered and where we focus on our people's physical and mental safety and wellbeing.

Our restructured approach to safety is designed to create an increased focus on workplace wellbeing. We believe that investing in this will ensure our people stay healthy, energised, valued and supported, which in turn will result in improved safety.

Wellbeing

Our revised Health, Safety and Wellbeing strategy is made up of four strategic pillars; Behaviour, Operational Safety, Engineering Safety and Health and Wellbeing.

Our focus and investment on wellbeing is summarised below:

Surveys

Our annual Your Voice surveys remain ongoing and we continue to review wellbeing questions to add to this so we get a better understanding of the wellbeing in our workplaces.

Training and Upskilling

As part of the strategy to complement our already established Mental Health First Aider training we are rolling out a framework of wellbeing training. This provides content and support for senior leaders, line managers and supervisor levels.

Champions

We are creating wellbeing champion roles. The aim is for the initiative to include training for those selected along with structured support from trained professionals. The initiative is designed to enable champions to raise current issues in their business units and receive advice and support on how to signpost the right networks to their teams.

Health checks

To complement the checks already available to our people we are rolling out mobile health checks across the Group. The aim is to enable our site-based teams to access health checks that can signpost the early signs of ill health or issues. We believe these preventative measures will allow our people to act early and remain healthy and energised.

Financial support

Working closely with our rewards team, we are supporting our people with savings and financial advice. Through the course of FY23, we will be aiming to level-up and align the health support we offer employees across the Group.

Perform

We have now run two complete years of Perform; our performance review cycle, which uses our values as a framework to ensure every employee is clear on what they need to deliver and the expected behaviours.

The Perform process encourages our employees to take personal responsibility for their own performance, development and wellbeing, supported by their manager through regular review conversations.

Kier believes that all leaders have a leadership objective focused on creating high performing teams where everyone can bring their best selves to work, and mandatory manager objectives are in place from FY23 onwards.

Your Voice

Your Voice is a regular series of anonymous, quick online surveys that give employees the opportunity to say how they feel about working for Kier, what is going well and what could improve. The aim of Your Voice is to:

- Ensure employees feel connected to Kier, even more so with a shift to agile working;
- Help employees understand, and feel recognised for, how their roles deliver value to Kier; and
- Ensure employees feel supported by creating a safe environment for concerns around mental, physical and financial health.

In addition, understanding the variances in how different groups experience working at Kier is important to future actions.

Topics explored this year have included employees' connection to Kier, recognition, support and confidence in the business. We have seen a positive set of employee engagement results which demonstrate the impact that our actions are having on employee engagement.

To further support employee voice, our leadership teams and Board play a key part in engagement. They undertake Visible Leadership Tours ('VLTs') which were broadened out in FY22 to encompass feedback on employee wellbeing, diversity and inclusion as well as employee engagement.

These visits allow 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.

Pride of Kier

Each year we hold our Pride of Kier annual awards programme. These are internal awards with eight categories, and the awards are designed to recognise outstanding work from colleagues across the Group, with individual and team awards.

Employees are encouraged to nominate either themselves or others and the judging process is rigorous with our Executive Committee and other senior leaders from our business units taking part. This year we had over 300 nominations.

Highways Awards

In FY22, our Highways business won the 'Construction Company of the year' award at the National Centre for Diversity 2022 FREDIE Awards. Our Highways business is now ranked as the second Most Inclusive Workplace in the UK.

In addition, our Highways business' sustainable world strategy has been shortlisted for the Chartered Institute of Highways and Transportation ('CIHT') Awards 2022.

Apprenticeships

We currently have 591 apprentices employed within the organisation, which equates to 6% of our UK workforce. We continue to deliver apprenticeships as a key means of upskilling employees and bringing in diverse emerging talent to reduce the industry skills gap.

59% of our apprentices are new recruits and we have a high number of early careers apprenticeship recruits each year via our Kier Degree Scheme. In addition, we recruit a number of apprentices into projects where we have a trade or technical requirement.

The other 41% of our apprenticeship population is made up of upskills, predominantly through our management apprenticeships. Re-employment rate for apprentices in FY22 was 97%. All apprentices will be employed on permanent contracts of employment from 1 July 2022.

Our graduate intake comprised 38% women in FY22.

The development of our people through apprenticeships remains a key strategic priority. During the year we:

Early careers

Introduced more structure to early careers and apprenticeship programmes including quarterly CEO engagement webinars, site visits, and a structured industrial placement programme.

Programme quality

Improved the quality of apprenticeship programmes through a strategic review of suppliers and adopted flexible delivery models.

Digital academy

Implemented a digital academy which will upskill existing and new employees through a level 3 digital apprenticeship programme and digital leadership development.

Supply chain

Supported the development of skills in our supply chain by sharing some historical apprenticeship levy surplus.

We came in 72nd place in the Top 100 Apprentice Employers in June 2022.

Parin Pathani: Trainee Quantity Surveyor

“As I approached the end of my time at sixth form, I knew university wasn’t the route for me. However, I was unsure about what career path I wanted to pursue. Instead, I decided to look and apply for apprenticeships and quantity surveying became of interest to me. I wanted to earn money while learning and gain experience without ending up with student debt that could take years to clear.

I joined the Kier degree programme, which would enable me to work towards becoming a qualified quantity surveyor, while gaining on-site experience at the same time and a degree at the end of the programme.

When I joined Kier as part of the Infrastructure business, my first project was at Hinkley Point C – a nuclear power station, which was three hours away from home, so I was able to experience living away for the first time as well as being part of a large project.

So far, I’ve achieved my Level 4 Certificate of Higher Education which has taken two years to complete. The final three years of my apprenticeship will involve me working to attain my BSc Hons in Construction Quantity Surveying Practice.

I strongly believe that doing an apprenticeship – the combination of work and studying – is a great way of starting your professional career.”

Talent attraction and development

‘I’m Proud’ campaign

To attract and retain the most talented people to deliver our business goals, we have enhanced our employer brand through our ‘I’m Proud’ campaign. We have seen our Glassdoor company rating increase to 4.2 out of 5.

Cranfield Management School

We have an established talent management process to support the development of internal talent. In addition to our management development programmes, we run two bespoke fast potential leadership development programmes in collaboration with Cranfield School of Management.

We recently introduced a positive action development programme too. The two leadership programmes are detailed below:

Building Leaders

Fast potential senior leadership development programme targeted at leaders with the potential to take on the most senior roles across Kier in the future. Cohort 1 concluded in October 2021 with a 50% promotion rate, and cohort 2 started in February 2022.

Raising Leaders

Started in June 2021 and is our fast potential junior talent development programme targeted at junior and middle managers with potential to progress into more senior roles. As at the end of FY22, 107 employees were in the process of completing or had completed the programme of which 48% were female and 4% from ethnic diverse backgrounds. Over 30% of participants have been promoted since starting the programme.

7% of our employees are undertaking formal learning programmes, this includes apprenticeships, our graduate programmes, non-apprenticeship leadership and management programmes.

"It was refreshing to know that Kier wasn't interested in our qualifications, only our personalities and how we work together. I was offered an operative position and was over the moon."

Making Ground participant

Armed Forces and Prison Leavers

Alongside being re-awarded the Defence Employer Recognition Scheme ('ERS') Gold Award, we refreshed our pledges to the Armed Forces community.

We have held the award since 2016 and were one of the first companies to sign the Armed Forces Covenant in 2013 and since then, we've partnered with BuildForce, Project Recce and the Career Transition Partnership to increase awareness of the wide-ranging roles available within the construction industry.

Making Ground is our entry into employment programme for both serving and ex-prisoners. It is designed to create multiple entry routes into the workplace, and our ambition is to identify and develop people that want to have a long-lasting and sustainable career in construction.

We know that prisons are full of people looking for an opportunity to succeed, and we want to give them that chance where possible.

Agile working

We continue to operate using the Kier way of working, which outlines Kier's approach to agile working. We do not expect employees to work from their normal place of work full-time unless there is a business or wellbeing need for them to do so. However, we appreciate that one size does not fit all and are encouraging employees to speak to their manager and team to implement the Kier way of working in a way that makes sense for their team and business. We know that agile working on sites can be tricky to implement and are working with a social consultancy to pilot agile working on sites across the business.

Priorities for FY23

- Rolling out further mental health training for supervisors;
- Train our wellbeing champions to communicate, signpost and promote wellbeing;
- Launch a new professional development scheme; and
- Further support employees during significant life changes.

Protecting human rights

Relevant SDGs

Strategic objective

We are committed to protecting the human rights of all those we encounter in the course of our business and in the wider communities where we operate. This commitment influences how we do business, driving ethical behaviour through our policies, procedures and governance.

Why it is important

People are our greatest asset. We believe everyone should have the right to life, personal liberty, private and family life, work, food, education and the highest attainable standard of health. Taking our responsibility to protect human rights seriously is the right thing to do for our people, for our customers, for our supply chain and for a strong resilient business.

Target

– Help eradicate modern slavery in our business through training.

Progress in FY22

– Training was undertaken by c1,400 colleagues in FY22.

We have a series of policies that underpin our commitment to human rights in the way we operate and do business including:
– Code of Conduct;
– Anti-Bribery and Corruption;
– Competition Law;
– Anti-Slavery and Human Trafficking;
– Strategy for Responsible Procurement; and
– Whistleblowing.

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

Procedures

In our contractual arrangements we require minimum obligations compliant with our policies and the law, we also include mechanics to manage issues should these arise. We implement procedures to assess that those different organisations are appropriate for Kier to work with. Our procurement procedures require appropriate due diligence and ongoing review of our supply chain.

Modern slavery focus

All our employees undertake mandatory training at various intervals through their time with Kier on how to spot the signs of modern slavery in our offices, sites and depots.

We continue to make our online training material available to our supply chain.

Our modern slavery statement sets out where we are and what we have done to monitor and enhance the effectiveness of our actions against modern slavery and human trafficking.

We continue to collaborate with the Gangmaster and Labour Abuse Authority ('GLAA') to develop further training for our employees linking up our approach to mental health with modern slavery considerations.

During the year we were the first UK contractor to train our Mental Health First Aiders ('MHFAs') to spot the signs of modern slavery and exploitation.

With c.1,000 colleagues having become MHFAs at Kier, this new training is being delivered through Jericho, a social enterprise based in the Midlands, which is an organisation that creates positive change in society including supporting victims of modern slavery.

Priorities for FY23

– Increase focus on modern slavery risk in our projects; and
– Develop support for vulnerable and disadvantaged communities through our projects.

Supplier payment days

We continue to work with our supply chain partners to achieve a year-over-year reduction in payment days from 34 to 33. We continue to adhere to the UK Government's Prompt Payment Code.

Our invoices paid within 60 days remains strong at 89%, consistent with FY21.

We have over £900m of expenditure with SME's across the Group which includes spend through several public sector frameworks.

TCFD report

In 2021, we launched our pathway to net zero, which sets out how our businesses will achieve net zero carbon emissions by 2045 across our own operations and value chain.

In this report, we detail our climate-related financial disclosures consistent with all of the TCFD Recommendations and Recommended Disclosures as outlined in 'Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures' published in October 2021 by the TCFD. The report covers our governance of climate change and demonstrates how Kier incorporates climate-related risks and opportunities into the Group's risk management, strategic planning and decision-making processes aligned to our net zero ambition.

Recommendation	Recommended disclosures	Pages
Governance Disclose the organisation's governance around climate-related risks and opportunities	a) Describe the Board's oversight of climate-related risks and opportunities	67
	b) Describe management's role in assessing and managing climate-related risks and opportunities	67
Strategy Disclose the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning where such information is material	a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium, and long term	68–71
	b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy, and financial planning	68–71
	c) Describe the resilience of the organisation's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	67, 71
Risk management Disclose how the organisation identifies, assesses, and manages climate-related risks	a) Describe the organisation's processes for identifying and assessing climate-related risks	67
	b) Describe the organisation's processes for managing climate-related risks	67
	c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organisation's overall risk management	67
Metrics and targets Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material	a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities in line with its strategy and risk management process	71
	b) Disclose scope 1, scope 2, and, if appropriate, scope 3 greenhouse gas ('GHG') emissions, and the related risks	48–49
	c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	71

Governance

Board level oversight of our climate change strategy is provided by our ESG Committee, which is led by Non-Executive Director Alison Atkinson. The ESG Committee oversees all ESG matters and is responsible for the oversight of climate-related risks and opportunities of the Group. Net Zero Carbon is one of the ten pillars of the Group's Building for a Sustainable World framework, the environmental aspects of which have been in place since 2020. The framework ensures sustainable action is driven through our core business decisions, annual budget process and our strategic objectives. In addition, last year, the Board recognised climate change as a principal risk for the business and the climate-related risks we have outlined below provide further details of that principal risk and are incorporated into our risk management structure. The Group's net zero targets and commitment to the Science Based Targets initiative and Business Ambition for 1.5°C provide our overall short- and long-term targets for climate change management and the Board monitors our progress against these and against several underlying interim targets (see page 50) which make up our net zero transition plan. The Remuneration Committee will be considering the introduction of ESG targets as part of the remuneration policy review.

At management level, climate-related responsibilities sit with our Group Sustainability Leadership Forum ('SLF") which oversees progress against all pillars of the Building for a Sustainable World framework. The Group SLF is led by the Chief Executive and includes the Chief People Officer who is responsible for Kier's approach to health, safety and wellbeing and driving forward Kier's ESG strategies, and the Group Health, Safety and Wellbeing and Sustainability Director, who is also responsible for environmental and social sustainability. The Group SLF meets quarterly and monitors risks, opportunities, and progress against our sustainability KPIs as well as providing a quarterly report to the ESG Committee.

The Group SLF is informed by a Group-wide Environmental Working Group, which manages our broad environmental agenda, and a Net Zero Carbon Working Group convened specifically to co-ordinate delivery of our net zero projects. In turn, each of our five core business streams has its own Sustainability Leadership Forum, made up of key cross-functional individuals from the business stream, which develop and deliver strategies and action plans for achieving the Building for a Sustainable World framework objectives. The Group's Net Zero Hub provides a centralised database for monitoring emissions data and projects around our climate management, e.g., tracking fuel use and emissions generation, quantification of embedded carbon in materials and data on our projects for emissions reduction (including costings and carbon reduction potential). Each of Kier's business streams has a transition pathway to net zero, tracked in the Net Zero Hub.

Risk management

We consider climate-related risks and opportunities in all physical and transition risk categories, current and emerging, regulatory requirements whether they occur within our own operations, or upstream and downstream of the Group and whether they first occur within the short- (0–1 year), medium (1–5 years) or long term (over 5 years) time horizons. Risks that first occur in short or medium-term may persist into the long-term. Climate-related risks and opportunities relevant to us were identified with the help of external consultants, CEN-ESG. Climate-related risks and opportunities are assessed on the existing Group risk management framework to determine their relative significance in relation to other Group risks and allow for integration into the Group risk management framework.

Prioritisation of risks is primarily based on the risk score resulting from a 3x3 matrix encompassing impact and likelihood, combined with a supplemental measure of risk velocity, which provides an additional perspective to risk likelihood.

Risk impact (quantification) is defined as:
- low (the exposure is well-understood, with a relatively low cost of mitigation, <£10m),
- medium (risk may be tolerated provided that the benefits are considered to outweigh the consequence, £10m-£50m), or
- high (risk threatens the viability of the Group or there is a reasonable likelihood of danger to people or material reputational damage (>£50m).

Likelihood is defined as:
- improbable (the risk is not foreseen as likely to occur or may occur in exceptional circumstances),
- possible (a relatively infrequent occurrence for the Group), or
- probable (a relatively frequent occurrence for the Group).

The Chief Executive has ultimate responsibility for climate-related risks, and the Board has overall responsibility for risk management across the Group. The Chief Executive, Chief Financial Officer and Executive Committee, carry out a quarterly risk review where the response, mitigations and controls of risks are assessed. The Group's Risk Management and Audit Committee ('RMAC') considers principal risks and reviews the effectiveness of the systems of risk management and internal control. The climate-related risk and opportunity register was reviewed and approved by the RMAC during the financial year.

Strategy

Climate change is reshaping the world we operate in. Although this generates risks for our business, the transition to a net zero world also provides compelling opportunities. We outline our relevant climate-related risks and opportunities and how each impact our activities and strategy. Our evaluation of the risks and opportunities covers all of our business streams although some risks and opportunities are specific to particular divisions, and this is reflected in our assessment of magnitude.

We have used scenario analysis to improve our understanding of the behaviour of certain risks to different climate outcomes, which helps assess the resilience of our business to climate change. We selected three climate-related scenarios, looking forward out to 2050: a scenario focused on a low carbon transition (SDS: limiting the global temperature rise to 1.65°C), a scenario with a combination of physical and transitions risks (STEPS: 2°C to 3°C temperature rise) and an extreme physical risk scenario (RCP 8.5: 4°C to 5°C temperature rise). We have quantified our risks and disclose these in line with the low, medium and high definitions for risk impact above.

Risks

Six key climate-related risks have been identified.

Risk	1. Carbon pricing in own operations	2. Carbon pricing in the value chain	3. Regulatory risk and industry standards	4. Cost of capital linked to sustainability criteria	5. Extreme weather events (floods, temperature extremes, heavy winds)	6. Risk to Kier achieving their own net zero targets
Type	Transition (Current and Emerging Regulation)	Transition (Emerging Regulation)	Transition (Market and Reputation)	Transition (Market)	Physical (Acute and Chronic)	Transition (Emerging Regulation)
Area	Own operations	Upstream	Downstream	Own Operations	Own operations	Own Operations/ Upstream/ Downstream
Primary potential financial impact	Higher costs associated with energy use	Increased cost of purchased goods and services and inbound transportation	Lost revenue	Higher cost of capital	Lost revenue/ disruption	Lower profit margins through increased costs and lower revenue
Time horizon	Medium term	Medium term	Short term	Medium term	Short term	Long term
Likelihood	Certain	Certain	Certain	Likely	Possible	Possible
Magnitude	Low	Low	Low	Low	Low	Low
Divisions impacted	Highways, Utilities, Infrastructure, Construction, Property	Construction, Property	Highways, Utilities, Infrastructure, Construction, Property	Highways, Utilities, Infrastructure, Construction, Property	Highways, Construction, Property	Highways, Utilities, Infrastructure, Construction, Property

1) Carbon pricing in own operations

In the drive to make businesses more responsible for their energy use and carbon emissions, an increase in carbon prices and a wider scope of industries covered by carbon schemes is expected over the medium term. Carbon pricing in the UK is via carbon taxes and the emissions trading scheme ('UK ETS') with an implicit form of carbon pricing within fuel excise duty. Kier is not required to participate in UK ETS currently but does pay the Climate Change Levy. The forecast for UK carbon prices under our transition risk scenarios is as follows:

	Carbon Price estimates (US$/t$CO_2$e)		
	2030	2040	2050
STEPS	65	75	90
SDS	120	170	200

Source: IEA (2021), World Energy Outlook 2021

These could lead to increased operational costs in the business associated with our fleet (Highways, Utilities) and with power generation at project sites (Infrastructure, Construction) which accounts for the majority of our scope 1 emissions. We have modelled the risk impact of the above carbon prices under both STEPS and SDS scenarios, across all time periods and based on our combined scope 1 and scope 2 market-based emissions for the UK for April 2021–March 2022 of 38,967 tCO_2e, the impact is low (see page 67 for definition).

This also assumes we will be subject to 100% of the forecast carbon prices, when it is not clear what the form of carbon price application will be (e.g., via emissions trading scheme or direct carbon taxes), where in our energy value chains carbon prices would be applied and whether any cost increases could be passed onto our customers.

Mitigation:

Our plans reduce the impact of the above risk materially. We have set a net zero target across business operations by 2039, with an interim target of 65% reduction in business operations (scope 1 and 2) emissions by 2030, net zero offices and 100% renewable electricity use by 2030. To help achieve this, we use the Net Zero Hub, which collates all projects across divisions that are aimed at reducing the carbon footprint of the Group. Key projects aimed at reducing scope 1 and 2 emissions include reducing fleet emissions, alternative fuel sources and projects to reduce energy use (see Opportunities for further detail).

2) Carbon pricing in the value chain

The expected increase in the scope and level of carbon pricing could impact input costs as the cost of embedded carbon is factored into water, waste and transportation but more importantly into the cost of materials in the supply chain. We have quantified our upstream scope 3 emissions using ENCORD categories this year for the first time. This uses a screening methodology primarily based on spend data and a set of expenditure category carbon cost conversion factors. Our Construction and Property divisions are the most exposed to carbon pricing in supply chains due to the volume and mix of raw materials used as well as the emissions associated with suppliers and subcontractors. We have modelled the risk impact of a full pass through into the cost of materials of the above carbon price scenarios based on our upstream scope 3. The risk impact would be high, but this assumes no mitigation and that cost increases cannot be passed onto clients, which we believe to be unrealistic, thus lowering the risk impact to low-to-medium.

Mitigation:

Our target of net zero including scope 3 by 2045 would reduce this risk impact to low over time. In order to achieve our scope 3 target, we are working closely with suppliers and subcontractors to 'design out' carbon products and processes through various in-house design functions. The Net Zero Hub logs opportunities to reduce carbon emissions in the supply chain, including alternative, lower carbon raw materials. We regularly engage with suppliers and subcontractors to ensure they meet our expected environmental standards (e.g., PAS 2080 to manage infrastructure carbon or Environmental Product Declarations ('EPD') to determine environmental impacts and whole life carbon).

3) Regulatory risk and industry standards

All of our business streams are exposed to regulatory pressures and industry standards related to climate change. Our clients include the UK Government, regulated industries, local authorities, and large corporates. Our clients have their own obligations with respect to regulations and net zero, plus industry standards are evolving and require suppliers and contractors to meet increasingly stringent emissions and energy management standards. For instance, the Procurement Policy Note 06/21 ('PPN 06/21') requires all suppliers who bid for government contracts with a total value exceeding £5m to demonstrate that they are taking action to reduce their carbon emissions in line with UK 2050 Net Zero targets (we meet these requirements). National Highways requires all Tier 1 contractors (of which we are one) to ensure PAS 2080 is in place by 2024 and The Environment Agency has a 2030 net zero target which means they require all contractors to reduce embodied carbon in the design phase. We may be at risk of losing contracts if they do not meet the latest standards or face penalties if contracts are in progress and standards are not met.

We expect this trend to increase and that tighter conditions in contracts could be expected under the SDS scenario. However, whilst the exposure to this risk may increase, we are well prepared for all regulatory requirements and our pathway to net zero reduces the risk impact to low.

Mitigation:

We regularly engage with key clients to incorporate their future carbon reduction plans into our design and planning and report in full on our net zero process, performance and ambition. We monitor all regulatory and reporting requirements and continue to assess the viability of lower carbon alternatives for materials (e.g., low carbon options for cement) and technologies, and where possible will integrate lower embodied carbon into engineering plans. We provide resources and training to staff on new technologies in order to develop a diversified range of raw materials and processes to meet client needs.

4) Cost of capital linked to sustainability criteria

Providers of capital (investors and banks) are increasingly incorporating sustainability into their assessments. UK lenders are factoring in ESG criteria into borrowing costs. Investors are aligning their portfolios to net zero and companies face disinvestment if plans are insufficient. This is already a feature in the current market, and it is likely this risk rises under SDS, which is a more stringent transition scenario.

Mitigation:

Our debt facilities are secured into the medium term, so the near-term risk impact is low. Kier will remain in continued dialogue with lenders and investors to ensure climate change disclosure is in line with requirements. We regularly assess covenants on lending and the possibility of using green finance to fund certain construction and infrastructure projects linked to achieving targeted BREEAM ('Building Research Establishment Environmental Assessment Method') ratings and other environmental targets. We recognise the requirement for transparency and best practice in our climate change reporting and have made the commitment to the Science Based Targets initiative to ensure a robust net zero transition plan.

5) Extreme weather events

An increase in the severity and frequency of extreme weather events could impact assets and operational activities across the business. We are exposed to extreme weather conditions in different ways. Acknowledging the challenges involved in modelling weather conditions accurately, we considered extreme weather risks collectively. Extremes in temperature (heatwaves and icy conditions) can lead to damage to plant and/or equipment and result in unsafe working conditions for employees and can also necessitate changes to design. For example, within Construction, buildings need to be designed to stay cooler in summer and warmer in winter which impacts insulation and heating/cooling design, within Highways, roads must withstand higher temperature extremes without melting or becoming unsafe for use. Similarly, consideration for severe weather (storms, heavy winds) is required in design, e.g., to ensure structures can withstand increased wind load. The increased frequency and changing pattern of flooding creates a risk whilst our employees are on site although flooding also creates a long-term opportunity resulting from the repair or rebuild of structures. Whilst there needs to be consideration for physical climate-related risks in design on projects, we are not asset owners and our involvement on sites is only temporary, which limits our exposure to long-term climate impacts. In assessing the risk impact that we face from extreme weather, we considered our own offices and premises, which means the risk impact is low. These risks are more likely to manifest themselves in the extreme climate risk scenario (RCP 8.5), but nonetheless the magnitude and impact are likely to remain low.

Mitigation:

We continue to closely monitor and model weather events (short and long term) and integrate this risk into the project design and delivery schedule. We have ISO 14001 certification across most divisions and employees are trained in environmental compliance. Regular site inspections minimise risk, and emergency response procedures are also in place.

6) Risk to achieving our net zero targets

We are reliant on third parties to help us reduce our scope 3 emissions, which account for 96% of our total Group emissions. This creates a risk that we may not be able to deliver to our net zero ambition. For instance, the development of zero emission commercial vehicles with sufficient range is required for the electrification of our fleet. Reducing our embedded carbon in materials requires both the development of novel low-carbon materials and our clients accepting low-carbon alternatives, potentially at higher cost or complexity than the standard product. Our ambition may also result in us having to turn down contracts that inhibit us from meeting our net zero targets or may require us to absorb some of the costs related to low carbon solutions which clients are unwilling to accept.

Under the SDS scenario, we expect this risk to be materially lower, as there is broader alignment of decarbonisation across the economy, whereas under the RCP 8.5 scenario the risk to us meeting our net zero plans increases.

Mitigation:

Continued supplier and client engagement and education, as well as detailed analysis of carbon footprint of a contract over its lifetime will assist in achieving our goals. In addition, a rigorous client and partner screening process will ensure we choose to work with clients whose goals are aligned to ours.

Opportunities

Five climate-related opportunities were identified, which are discussed in greater detail below.

Opportunity	1.Transportation emissions	2. Resource efficient materials and design	3. Energy savings	4. Waste reduction	5. Net zero transition – market growth
Type	Resource Efficiency	Products & Services	Resource Efficiency/Energy Source	Resource Efficiency	Business development
Primary potential financial impact	Decreased costs	Decreased costs	Decreased costs	Decreased costs	Increased sales
Time horizon	Short/Medium term	Medium term	Short/Medium term	Short/Medium term	Medium term
Likelihood	Possible	Certain	Certain	Certain	Certain
Magnitude	Low	High	Medium	High	High
Divisions impacted	Highways, Utilities	Construction, Property	Highways, Utilities, Infrastructure, Construction, Property	Highways, Utilities, Infrastructure, Construction, Property	Highways, Utilities, Infrastructure, Construction, Property

1) Transportation emissions

Planned improvements in fleet specification and use patterns is a significant opportunity for us, with vehicle emissions (Highways, Utilities) accounting for around half of our scope 1 emissions in FY22. Initiatives include the use of telematics to improve driver efficiency, substitution of Hydrotreated Vegetable Oil 'HVO' as an alternative to diesel, and an increase in the proportion of hybrid or electric vehicles in use, in line with our target for achieving 100% electrification or using alternative zero carbon fuels for our own fleet by 2030. An example of this is our use of HVO to replace diesel on the jet-lane of the A331 (Infrastructure) with the aim to have all site vehicles running on HVO fuel, providing a 90% 'wheel to well' reduction in GHG emissions.

2) Resource efficient materials and design

We aim to reduce the carbon footprint over the lifetime of our contracts by using more energy efficient or recycled raw materials and by embracing modern methods of construction and product design. These create significant emission saving opportunities, but they can increase project duration and cost, and hence are subject to client approval. This is relevant for Construction and Property. We are exploring this opportunity through several initiatives and continued investment in R&D on new product development through the Net Zero Hub. For example, our development of substitutes like Ground Granulated Blast Furnace Ash ('GGBS') as a replacement for Ordinary Portland Cement, which has high embodied carbon. St Sidwell's Point leisure centre in Exeter, which has been designed and built to Passivhaus standards is an example of an efficient design with a low carbon footprint. Passivhaus minimises energy use through passive energy saving measures including excellent insulation, having an airtight structure and heat recovery systems. The construction process targets minimal disruption to the environment, and efficient microfiltration systems reduce use of chemicals, and enables re-use of water. It is estimated the Passivhaus standard will reduce energy costs of the centre by 70% per annum compared to a standard design.

3) Energy savings

We are working hard to generate energy savings from both our offices and project sites. Energy savings (both fuel and electricity) on project sites can be derived from accommodation and equipment. There is an opportunity to reduce site fuel consumption through switching to alternative and renewable energy sources and even scheduling battery pack charging overnight to reduce emissions. Kier recently trialled the new PUNCH Flybrid flywheel technology where a flywheel energy storage system decreases fuel use by reducing the generator size needed to power cranes onsite. Another example of using renewable energy sources is on the South Perot project, working with the Environmental Agency to achieve their 2030 net zero target, where a solar pod powers office cabins and a welfare unit. Within our own premises, all new electricity contracts are procured on renewable tariffs, and we are using energy efficient LED lighting, heating and cooling.

4) Waste reduction

Reduction in waste will reduce a key component of our scope 3 emissions. We aim to achieve zero avoidable waste by 2035 and eliminate single use plastics by 2030. This builds on the Government's 'Resources and Waste Strategy', which presents the government's long-term approach to minimise waste, promote resource efficiency and move towards a circular economy. An example of this was seen in the Helston Flood Alleviation Scheme, where soils from a local development site was used to create flood banks, using the CEEQUAL design and specification process and engaging with the Environment Agency Waste team to gain project approval. This resulted in carbon savings from raw materials, lower HGV use and avoidance of landfill waste. Another example was in National Highways repairs, where recycling all existing tar bound material in situ into the new carriageways using Aggregate Industries' 'Foamix' solution, means less removal of road tar, which is classed as hazardous waste. This has the advantage of reducing carbon emissions due to lower transport, reducing costs and landfill waste.

5) Net zero transition – market growth opportunity

The trend towards low-carbon infrastructure, transport systems, renewables, and energy efficient buildings is creating a market growth opportunity for Kier. The UK Government has pledged to achieve net zero by 2050 and created a 'Ten Point Plan for a Green Industrial Revolution'. Following on from this many Local Authorities have now set net zero targets for 2030. The Environment Agency are working with National Highways, Network Rail and Homes England on long-term adaptive pathways to align strategy in coastal and flood risk areas. This creates a large commercial opportunity for Kier to expand existing revenue streams. The most significant government spending programme is the National Infrastructure Spending Programme – the Government's so called, 'Roadmap to 2030' which details plans to maximise the impact of £650bn planned infrastructure spending. Additionally there are an increasing number of initiatives like the Green Homes Grant, a £2bn programme to improve energy efficiency, the Ministry of Justice's £1bn New Prison Programme, and a multitude of net zero Building projects (for example the Winterstoke Academy facility, which includes sports pitches, car and cycle parks, and external social and learning spaces), targets net zero carbon in regulated energy, a 10% biodiversity net gain and a BREEAM excellent rating), which point to a growing addressable market for Kier.

This market opportunity increases under the SDS scenario, where net zero emissions requirements for new buildings and infrastructure are brought in sooner and the transition to renewable energy is faster. Kier is well paced for this opportunity and our 'Building for a Sustainable World' strategy will mean we maintain our reputation and credentials as a pioneer in low carbon construction.

Scenarios

We have analysed and quantified how each of our climate-related risks and opportunities behaves under the three scenarios outlined in the table below. When taken in aggregate, we concluded that our risk mitigation strategies, strategy, disclosure, and ambition make our business resilient to climate change. We will continue to develop our analysis as new data is made available both internally and externally and we will continue to monitor our climate exposures and action plans through Kier's risk management framework, Net Zero Hub and governance structure. The opportunities identified continue to be developed in line with the Group strategy and objectives.

Metrics and targets

We monitor and report on scopes 1, 2 and 3 greenhouse gas ('GHG') emissions as well as energy consumption. The calculation of our carbon footprint is in line with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and the ENCORD Construction CO_2e Measurement Protocol, as reported on pages 48 and 49.

The Group's Building for a Sustainable World framework contains clear targets associated with climate change which are SBTi aligned and in line with the UK Government's commitment to net zero by 2050. Targets are set from 31 March 2019 as a baseline for scopes 1 and 2 and 31 March 2022 for scope 3, and include a 2045 net zero target across own operations and value chain (i.e., from scopes 1, 2 and 3) and interim emissions targets, as well as additional targets on renewable energy use and waste reduction, as outlined on pages 46 and 51.

Scenarios

Scenario	Temperature range	Source	Overview
Sustainable Development ('SDS')	Global temperatures rise by 1.65°C by 2100, with 50% probability	IEA World Energy Model[1]	A co-ordinated global low carbon transition, which limits the global temperatures rise to 1.65°C by 2100 from pre-industrial levels. It assumes current net zero pledges are achieved in full and there are extensive efforts to realise near-term emissions reductions. The SDS is based on a surge in clean energy policies and investment but is also associated with higher costs of carbon. Expect rapid market growth for low carbon infrastructure solutions.
Stated Policies Scenario ('STEPS')	Global temperatures rise by 2.6°C by 2100, with 50% probability	IEA World Energy Model[1]	A more conservative pathway, where it is not taken for granted that governments will reach all announced goals. This scenario outlines a combination of physical and transitions risk impacts as temperatures rise by 2.6°C by 2100 from pre-industrial levels. Carbon prices and regulatory pressure expected to increase from current levels. Expected market growth opportunities expected to exceed risks.
RCP 8.5	Global temperatures rise between 4.1–4.8°C by 2100	IPCC[2]	A 'worst-case' climate change scenario, where energy intensive growth and fossil fuel consumption continue to grow throughout the century, with limited global response to mitigating climate change risk. High physical climate risks are expected (extreme weather), with limited transition risks and lower opportunities for low carbon growth.

1 IEA (2021), World Energy Outlook 2021, IEA, Paris.
2 IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change.

Risk management

The improved risk management framework we had put in place has allowed Kier to identify and manage the evolving external risk landscape collaboratively with our clients

Risk is an inherent part of our Business operations and we continue to ensure that all business decisions take into account the challenging environment we operate within. This requires a deliberate and well thought through approach to risk management which is adopted at every stage of our project life cycle to ensure appropriate strategies are adopted in line with our risk appetite. Our Group Managing Directors are accountable within their business streams for owning and delivering the process of mitigating and managing identified operational risks and we have been able to drive consistency in our approach through the newly implemented 'Risk Standard'.

Risk culture remains a key priority and the Safety behavioural programme will be used to reinforce the way we wish to operate collaboratively.

New risks and uncertainties have emerged and are well publicised around cost of living, geopolitical issues and cyber which will be managed the same way as COVID-19 was through our established risk framework.

We are forming a stronger link between our risk framework and the ESG strategy to provide a resilient company capable of delivering our mid-term strategy.

Material developments have been made with delivering a holistic risk understanding by aligning operational risk practices and functional risk delivery, through tech-enabled dashboards which give the business functions access to consolidated risk data to help drive their risk-based decision-making.

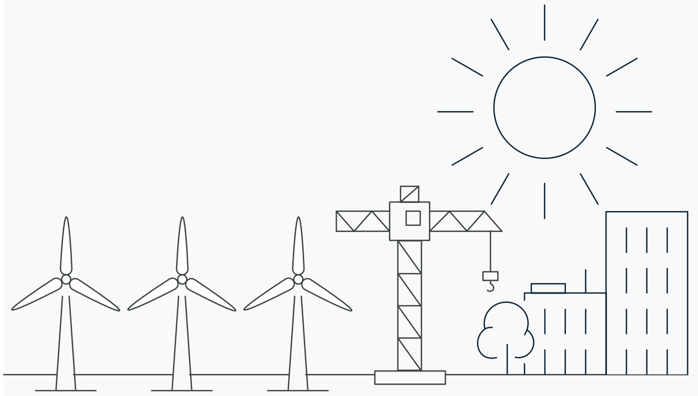
Our risk management initiatives

2022

1. Integrating the three lines of defence model into a risk structure within Commercial
2. Risk appetite development

1. Integrating the three lines of defence into a risk structure within Commercial
Kier retains an effective three lines of defence operating model with clear, distinguishable accountability between the business teams, risk and internal audit. In addition to this, a commercial focus has been applied at an operational level.

2. Risk appetite development
Risk appetite ('RA') statements have been reviewed and now contain articulation of qualitative risk appetite statements. This, in addition to the existing RA information, provides further context of risks and the proposed baselined standards being aspired to with regards to mitigation and management of risks. An explanation of why the level of risk appetite has been chosen for each principal risk and uncertainty ('PRU') has been added this year.



Forward-looking priorities

2023

3 Risk maturity assessment

4 Risk register Enhancements

5 Deloitte advisory review of Kier Group's risk, controls and assurance framework

6 Forward-looking priorities

3. Risk maturity assessment

An assessment of risk maturity (at an organisational level) was undertaken across various stakeholders in the business – which demonstrated positive and tangible improvements in various categories – e.g., risk governance, reporting, identification and assessment, culture etc. A plan to bridge any gaps across the risk maturity assessment categories has been devised and will begin with the sharing of risk information across business areas.

4. Risk register enhancements

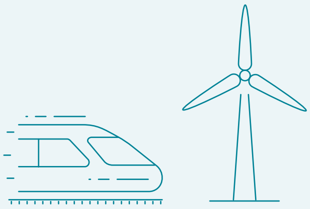
Key Risk Indicators ('KRIs') are now in place for all principle PRUs with risk appetite thresholds to monitor and report against in relation to these KRIs.

Further unification of risk register formats across the Group has been a key activity over the last year – enabling a true holistic view of risk and common themes.

5. Deloitte advisory review of Kier Group's risk, controls and assurance framework

There is one action remaining from the 2020 Deloitte risk, internal control and assurance management roadmap, following their review of the effectiveness of Kier's risk management and internal controls, which relates to the standardisation of functional risk and control matrices.

- Further refinement to KRIs – including increased volumes of KRIs and monitoring of these
- Business stream post-implementation effectiveness review of the 'Risk Standard'
- Control Self Assessment ('CSA') – Further independent assessment of effectiveness of the CSA process by Internal Audit
- Power BI sharing of risk information across the organisation ensuring lessons learnt and coordinated risk register management
- Further work on identifying and managing physical and transformation risks in relation to TCFD
- Heightened focus on climate risk evidenced by this now being a bi-annual standing agenda item at the Group Risk Committee requiring formal reassessment of risks and mitigations
- BEIS consultation (The Department of Business, Energy and Industrial Strategy consultation on 'restoring trust in audit and corporate governance') – the working group continues to focus on improvements within our internal control framework, including improved risk and control matrices for the relevant functions. We continue to keep a watching brief on the final outputs and requirements from the review.



Risk management
At HMP Five Wells

Overview
The new build resettlement prison HMP Five Wells in Wellingborough, Northants has set a new standard for excellence in integration, collaborative working, product innovation, skills and training, and a pioneering approach to offsite manufacture and digital technologies. This vast £253m project delivered 1,715 prison places through a Project Partnering Contract (‘PPC2000’). It is the first in a series of new build prisons as part of the Ministry of Justice’s (‘MoJ’) New Prisons Programme, providing thousands of safe, secure and decent prison places with a focus on rehabilitation.

Design standardisation driving expediency
A core feature of the prison transformation programme was to optimise how the MoJ’s assets are designed, procured, delivered and operated through a ‘platform’ approach; a rules-based approach to design that uses standardised components and processes to maximise efficiencies across a number of assets.

The outcome is that HMP Five Wells represents a step change in the evolution of the Design for Manufacture and Assembly (‘DfMA’); achieving a platform for delivering future prisons more quickly and efficiently with better outcomes.

Modern Methods of Construction to de-risk delivery
HMP Five Wells incorporates repeatable, standardised components across 13 buildings on site. Circa 80% of the design has been standardised, leaving just 20% as site-specific design. HMP Five Wells has optimised the precast structure and increased the number of cast-in components; greatly enabled by our digital approach.

The project incorporates 15,183 precast panels plus over 60,000 sub-components. Three precast suppliers across six factories manufactured the components that are the best possible fit for their production facilities. 19,680 conduits, 2,110 underfloor heating mats, 1,682 shower trays and drainage were all cast into the panels, and we also made extensive use of prefabricated Mechanical, Electrical and Plumbing (‘MEP’), including over 3km of four-storey MEP risers.

This has resulted in:
– A reduction in on-site labour of a third compared to traditional construction
– Prefabricated MEP saved 54,000 working hours on site
– Construction was 22% faster than traditional construction.

Contract approach
The use of the PPC2000 contractually enshrined collaboration, supporting all project partners to have an equal voice. Use of PPC2000’s ‘escalation hierarchy’ ensured effective decision-making and proactive engagement at all levels of the project team. Through the use of a Partnering Advisor, partnering team surveys showed 100% satisfaction for ‘working together’, exemplified by the joint approach taken by MoJ and Kier during the COVID-19 pandemic to maintain productivity and ensure additional welfare provision for site personnel.

COVID-19
The use of a diverse supply chain – with each precast component being manufactured by at least two of the three manufacturers – providing resilience and flexibility. During COVID-19 one supplier was unable to maintain manufacture so supply of panels was transferred to another manufacturer to create an extra four-weeks’ buffer stock and maintain on-site productivity during the pandemic.

How we manage risk

Introduction

The Group recognises that a robust and consistent approach to the management of risk is fundamental to the Group's operations. During FY22, the Group has further developed its risk management, internal controls, mitigating actions and risk standards. The Group Risk Committee combined with the Risk Management and Audit Committee ('RMAC') ensures key second line risk and audit governance within our three lines of defence model.

Oversight

The Board retains overall responsibility for how 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 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. The Board reviews risk as part of its strategy development sessions.

Risk management process

The Group Commercial Director continues to ensure 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. A risk standard is in the process of being rolled out to all business streams to further refine these processes.

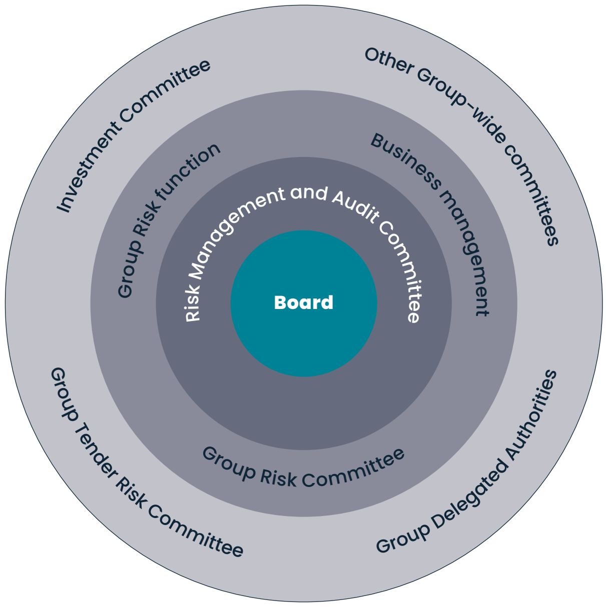
Risk assessment and risk appetite

During the year, the Board undertook an assessment 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 including those that would threaten its business model, future performance, solvency or liquidity, so as to inform the parameters within which the business is authorised to operate. Risk appetite qualitative statements are now in place to provide further risk context and aspiring standards of mitigation.

In addition, supporting rationale for the various risk appetite level allocation is also now in place.

On behalf of the Board, the Risk Management and Audit Committee monitored the systems required to mitigate and manage these risks.

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

How we manage risk continued

Risk management process

Top down
Bottom up

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.

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.

Group Commercial Team
Responsible for risk processes, controls and risk systems. Risk management frameworks, risk policy, corporate risk register and Risk Committee.

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.

Risk Reporting & Insight
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 internal audit work support each other by reviewing the effectiveness of any changes made within operations to mitigate risks or benefit from our opportunities.

Various market insight intelligence is also used with regards to pricing and lead times to enable real time analysis, mitigation and action planning.

Three lines of defence operating model

1.

1st line: Business Teams
- Design operational risk and compliance frameworks
- Identification, assessment, management, monitoring and reporting of risks/issues, controls and action plans
- Risk owners
- Risk leads

2.

2nd line: Risk & Compliance
- Design strategic risk and compliance frameworks
- Monitor adherence to the risk and compliance frameworks
- Provide support and challenge to the first line
- Risk monitoring and reporting

3.

3rd line: Internal Audit Team
- Independent oversight of Risk & Compliance and first line business teams
- Review frameworks and applications objectively

This established three lines of defence model has now also been integrated within our various operational business streams, for a best practice approach. A 'Risk Management Standard' has been designed to support this approach throughout the organisation, which allows for an enhanced operational specific risk management focus at business stream level. This risk standard sets out various processes – e.g., how we work with our supply chain partners, procurement, the process to manage the number of new risks that have emerged during the year.

Areas of focus
In the FY21 Annual Report we highlighted areas of focus for the Group's risk management to be developed during the FY22 financial year.

Area of focus	Examples of progress made in 2022
High-impact low-likelihood risk assessment and analysis	These more remote risks are now considered as part of the risk management process and reviewed regularly via market intelligence and internal reporting
Integrating the three lines of defence into new risk structure under Commercial	Now complete
Responding to BEIS consultation on restoring audit trust and corporate governance	The first phase BEIS response has been considered by the working party who will continue to consider the impact of the final BEIS requirements. requirements for an enhanced control environment once published.

Principal areas of focus for FY23
- Climate Change – physical and transition risks
- BEIS preparedness
- Cyber security response – new ransomware threats.

Principal risks and uncertainties

Introduction
During the year, the Board identified the PRUs 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 PRUs 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. Risks are plotted on a net basis, including current mitigations.

Changes to the principal risks and uncertainties
The PRUs listed in the FY21 Annual Report have been reviewed to assess their continued relevance in FY22. 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). Last year's principal risks and uncertainties remain relevant and one new principal risk has been added.

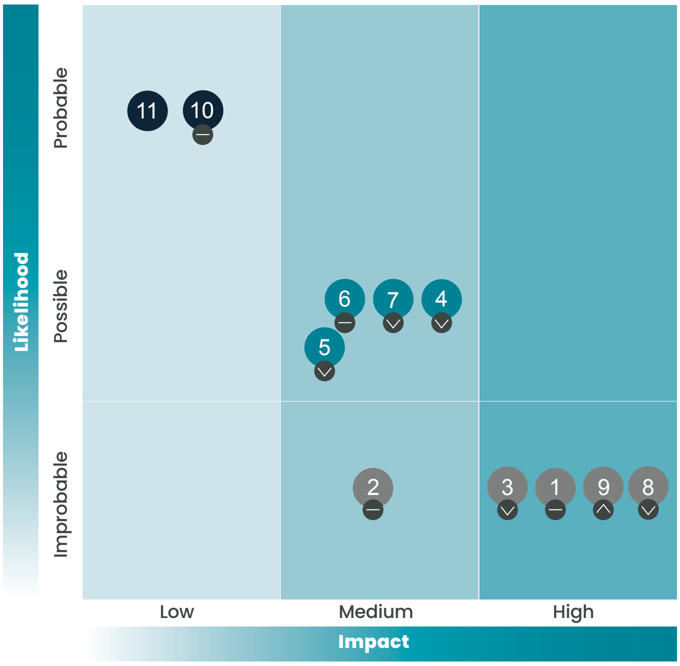
New Principal Risk	Reason for change
Macroeconomic Risk	Examples may include political instability, rises in interest rates, energy prices, inflation/ cost of living.

Risk Appetite
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.

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

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

Risk heatmap



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.

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

Principal risks	Movement in 2022
1 **Health and safety** Risk appetite: low	No change
2 **Legislation and regulation** Risk appetite: low	No change
3 **Funding** Risk appetite: low	Decrease
4 **Maintaining an order book within selected markets** Risk appetite: low	Decrease
5 **Contract management** Risk appetite: low	Decrease
6 **People** Risk appetite: medium	No change
7 **Supply chain** Risk appetite: low	Decrease
8 **Strategy** Risk appetite: low	Decrease
9 **Cyber, IT security and data protection** Risk appetite: low	Increase
10 **Climate change** Risk appetite: medium	No change
11 **Macroeconomic** Risk appetite: low	New risk for 2022

Principal risks and uncertainties continued

Principal risk	Description	Impact/actions
Health and safety 1 **Level of impact** High **Risk owner** Chief People Officer **Link to strategy** – Disciplined growth – Consistent delivery **Board risk Appetite** Low	**Failure to maintain a safe working environment and prevent a major incident** The Group's operations are complex and potentially hazardous and require the continuous management of health, safety, wellbeing and sustainability matters. **Risk Appetite Statement** We create and enable a working environment which ensures the health, safety and wellbeing of all our valued employees and stakeholders. We continue to maintain the various environments within which we operate. Our appetite for this risk will always remain low. **Risk Appetite Rationale** Safety is, and will always be, our licence to operate. The health and wellbeing of our people has a direct impact on our operations. The Group will always have a low appetite for risk when it comes to protecting our most important asset, our people.	**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 – An unhealthy employee population with heightened risk of stress. Resulting in greater levels of absence and less operational resilience. **Mitigating actions** – Continued focus on the five SHE basics – Implementing the responsible business approach which includes the launch of the Group's new Health, Safety & Wellbeing strategy, alongside the consistent delivery of our 'Building for a Sustainable World' framework – Embed the four strategic pillars and associated objectives of the Health, Safety & Wellbeing strategy (behaviour, operational safety, health and wellbeing and engineering safety) – Setting a tone from the top, through activities such as senior management visible leadership tours.
Legislation and Regulation 2 **Level of impact** Medium **Risk owner** Group Legal & Compliance Director **Link to strategy** – Disciplined growth – Consistent delivery – Generate cash **Board risk Appetite** Low	**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. **Risk Appetite Statement** We ensure compliance with legal and regulatory requirements, and continue to identify and plan for the implementation of new requirements via horizon scanning and subsequent policy/procedure implementation. The risk appetite surrounding legislation and regulation risk is low. **Risk Appetite Rationale** In order to continue to operate in our chosen markets, Kier must comply with all applicable legislation and regulation. To win high-quality work from our intended client base, we must be able to demonstrate compliance. Therefore, it is fundamental to Kier's continued success that we remain compliant.	**Potential impact** – Penalties for failing to adhere to legislation or regulation – Increased operating costs of compliance – The loss of business – Reputational damage. **Mitigating actions** – Appropriate policies that are regularly reviewed and relevant training and awareness programmes to support policy implementation – Regular engagement with Government and Government agencies with respect to the Group's continued compliance – Monitoring of, and planning for, the impact of new legislation and regulations – Collaborative engagement with external stakeholders.

Principal risk	Description	Impact/actions
Funding 3 **Level of impact** High **Risk owner** Chief Financial Officer **Link to strategy** – Disciplined growth – Consistent delivery – Generate cash **Board risk Appetite** Low	**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. **Risk Appetite Statement** Ensuring the Group operates responsibly within its agreed borrowing covenants is a key component of the Group's financial planning and monitoring processes. The Group is targeting a sustainable net cash position in the medium term. The risk appetite for funding is low. **Risk Appetite Rationale** Our risk appetite is low as having access to committed funding is critical to ensuring operational stability.	**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** – Effective cash forecasting and working capital management in combination with continued monitoring and prudent financial planning to ensure cash generation and covenant compliance is maintained – Continued collaborative engagement with customers, suppliers, HMRC, pension scheme trustees, banks, lenders and sureties. – Through financial planning the Group ensures that appropriate levels of headroom under committed facilities and their financial covenants are in place to accommodate reasonable downside.
Maintaining an order book within selected markets 4 **Level of impact** Medium **Risk owner** Group Commercial Director **Link to strategy** – Disciplined growth – Generate cash **Board risk Appetite** Low	**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. **Risk Appetite Statement** We are disciplined by operating in selected markets and focus on business where opportunities are right for us in terms of our skills, expertise and suitability – enabling optimal delivery and benefits for our stakeholders. We ensure a strong order book of current and future activity and we are also prudent in our reporting of our order book. Risk appetite for order book risk is low. **Risk Appetite Rationale** We have a low appetite to move away from our selected markets because of the higher risk of securing a loss making project and the additional costs associated with serving too many sectors.	**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.

Principal risks and uncertainties continued

Principal risk	Description	Impact/actions
Contract management 5 **Level of impact** Medium **Risk owner** Group Commercial Director **Link to strategy** – Disciplined growth – Generate cash **Board risk Appetite** Low	**Failure to manage contracts effectively at each stage of a project's life cycle. The business suffers a significant loss as a result of failing to follow the contract administration** We start by ensuring we agree appropriate risk sharing with our clients and that this is adequately reflected in our contracts. 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. **Risk Appetite Statement** We are disciplined with our project selection to ensure we select projects under frameworks or with clients who provide repeat business. We then proactively manage contracts at each stage of a project's life cycle gateway. Frameworks, policies and standards are in place and are consistently effective throughout the business. Risk appetite is low in relation to contract management risk. In conjunction with our operating framework, we operate a robust tender management process with gateways and approvals at all stages of this activity, governed via our GTRC committee. The Group has a low risk appetite in relation to tender management. **Risk Appetite Rationale** The Group has a low risk appetite in relation to tender and change management because of the increased risk of a loss making project or unacceptable WIP.	**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 because of reputational projects. **Mitigating actions** – Tender peer review through the Group Tender Risk Committee – Kier standards for contract amendments – Commercial Handbook explains how we manage change – In built escalation to identify unacceptable levels of unagreed change.
People 6 **Level of impact** Medium **Risk owner** Chief People Officer **Link to strategy** – Disciplined growth – Consistent delivery – Generate cash **Board risk Appetite** Medium	**Failure to attract and retain key employees** The Group's employees are critical to its ability to deliver the medium-term plan. The Group needs to identify, retain and motivate people with the right skills, experience and behaviours and to identify tomorrow's leaders. **Risk Appetite Statement** We ensure we develop a workforce with the required competencies, skills and capabilities to deliver on our business plan. We ensure we have a compelling employee proposition to ensure people are attracted, developed and retained in order to deliver operations. The Group has a medium risk appetite for people related risk. **Risk Appetite Rationale** While there are market fluctuations outside of our control, we do have appetite for people risk to a degree. We have strong mitigating controls and actions to ensure we have a workforce with strong competencies, skills and capabilities.	**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** – People strategy aligned to the medium-term business plan – Diversity and Inclusion roadmap – Health, safety and wellbeing strategy – New leadership development offer – Listening to feedback from employees, including the use of engagement surveys – Create an effective, inclusive work environment, through our Performance Excellence culture.

Principal risk	Description	Impact/actions
Supply Chain 7 **Level of impact** Medium **Risk owner** Group Commercial Director **Link to strategy** – Disciplined growth – Consistent delivery **Board risk Appetite** Low	**Failure to maintain effective working relationships with the supply chain, 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. **Risk Appetite Statement** We continue to have positive relationships with our supply chain and subcontractors. Our supply chain and subcontractors are risk assessed and vetted for good financial and reputational standing – who also mirror our business operating standards (e.g. health and safety). We have a strong relationship with our suppliers and product associations and maintain a constant dialogue over the availability of products and alternatives. Risk appetite in relation to supply chain is low. **Risk Appetite Rationale** We have a low appetite to exposing ourselves to unmanageable supply chain risk because of the impact on our ability to deliver to customers.	**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** – We are updating the Kier subcontract to reflect the principles of the Construction Playbook – Place a Procurement Director directly into each business to deliver their supply chain management strategy – Continue to meet prompt payment reporting requirements.
Strategy 8 **Level of impact** High **Risk owner** Chief Executive **Link to strategy** – Disciplined growth – Consistent delivery – Generate cash **Board risk Appetite** Low	**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. **Risk Appetite Statement** We have business plans that underpin the medium-term strategic objectives. All of our operational performance management reviews are geared towards the achievement of this plan. Performance excellence is in place to ensure we have the necessary focus on those capabilities to meet the strategic plan. Risk appetite surrounding strategy risk remains low. **Risk Appetite Rationale** Delivery of the Group's medium-term strategic objectives is critical to delivering our investment case.	**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.

Principal risks and uncertainties continued

Principal risk	Description	Impact/actions
Cyber, IT security and data Protection 9 **Level of impact** High **Risk owner** Chief Information Officer **Link to strategy** – Disciplined growth – Consistent delivery – Generate cash **Board risk Appetite** Low	**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 infrastructure from current conventional cyber/loss of data risks could cause outages, heavy reputational damage, or financial fines. **Risk Appetite Statement** We ensure that effective security is in place to prevent the loss of data/sensitive information. Any potential loss of data regarding key IT infrastructure and systems is carefully protected against – including cyber-attack counter measures. Risk appetite is low. **Risk Appetite Rationale** Kier regularly needs to send data to customers and clients. The geopolitical pressures have increased the level of UK exposure to state sponsored events and ransomware sophistication, so our partners and ourselves are at a heightened state of vigilance.	**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** – Mandatory training and awareness for all staff – Vulnerabilities, access and incident management – ISO 27001 and cyber essentials accreditation – Information security cyber business continuity plan, system alerts. Patching/updates and monitoring – Data loss prevention tools – Partner/suppliers follow Group minimum standards re cyber, security and data – Investment in IT infrastructure.
Climate change 10 **Level of impact** Low **Risk owner** Chief People Officer **Link to strategy** – Disciplined growth – Consistent deliver **Board risk Appetite** Medium	**Failure to identify and effectively manage climate change risks and opportunities** The Group's operations are subject to physical and transition climate change risks. Whilst some climate resilience measures offer opportunities to innovate and expand/enhance capabilities. **Risk Appetite Statement** We are committed to addressing climate change and have clear goals and objectives in place with regards to waste, energy, carbon and biodiversity. Ensuring compliance with the statutory reporting elements that are associated with Task Force on Climate related Financial Disclosures ('TCFD'). **Risk Appetite Rationale** Due to the cost associated with the speed at which we achieve net zero carbon, our appetite to achieve certain reduction targets needs to be balanced against the cost to the business.	**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 and delivering against the Group's sustainability framework, 'Building for a Sustainable World'. With a focus on reviewing the next three years of the framework, particularly: – Implementing each business stream's pathway to Net Zero Carbon. To ensure delivery of the Group's overall pathway to Net Zero Carbon in line with Science-Based Targets – Delivery against short, medium and long-term Zero Avoidable Waste Targets – Implementation of our Sustainable Procurement strategy – Maintain the 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 – Maintain the climate risk and opportunities register and net zero management system, to align with TCFD reporting and managing the financial risk of climate change – Embrace modern methods of construction and product innovation to deliver low-carbon solutions for climate resilience – Work with our supply chain to help deliver our strategic objectives against waste, packaging, carbon and innovation.

Principal risk	Description	Impact/actions
Macroeconomic 11 **Level of impact** Low **Risk owner** Chief Executive **Link to strategy** – Disciplined growth – Consistent delivery – Generate cash **Board risk Appetite** Low	**Changes in macroeconomic conditions negatively impact on Kier, its workforce and its clients** Examples may include political instability, rises in interest rates, energy prices, inflation/cost of living. **Risk Appetite Statement** We are disciplined by operating in selected markets and focus on business where opportunities have an acceptable risk. We continue to deliver our contracts, supported by our risk management framework, Operating Framework and Performance Excellence processes. Our macroeconomic risk appetite level is low. **Risk Appetite Rationale** Because economic conditions are outside of our control, our risk appetite is low. Our selected markets offer a counter cyclical opportunity and we also a have a robust tender process, operating model, financial position, and a strong order book.	**Potential impact** – Reduced revenue or margins – Project affordability – Availability of labour and materials – Increased supply chain insolvency risk. **Mitigating actions** – Various market insight and intelligence relating to pricing, lead times – Kier risk management framework – Supply chain management – Kier Operating framework and performance excellence processes – Kier Commercial Standards – Use of financial derivative instruments to hedge exposure to fluctuations in interest and exchange rates.

Emerging risks and opportunities

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

- **Global Recession**
  Stagflation, energy prices, cost of living and interest rates are all contributing factors to what could pose a global recession risk.
- **Climate change**
  Opportunities arising through ESG and remedial works in relation to energy efficiency (for example electric charging points), modern methods of construction and other opportunities regarding construction.

Financial review

"The Group performed well during the year despite inflationary pressure, delivering an adjusted operating profit of £120.5m."

Simon Kesterton
Chief Financial Officer

Introduction

The Group performed well during the year, despite inflationary pressure, delivering an adjusted operating profit of £120.5m (FY21: £100.3m). This represents a 70 basis points operating margin increase year-over-year to 3.7% with the Group exceeding its medium-term plan margin target of c.3.5% (FY21: 3.0%).

The continued strong operational performance led to an increased statutory profit before tax from continuing operations of £15.9m (FY21: £5.6m), despite an anticipated reduction in revenue.

Summary of financial performance

	Adjusted[1] results			Statutory reported results		
	30 Jun 22	30 Jun 21[2]	change	**30 Jun 22**	30 Jun 21[2]	change
Revenue (£m) – Total	**3,256.5**	3,328.5	(2.2)%	**3,256.5**	3,328.5	(2.2)%
Revenue (£m) – Excluding JV's	**3,143.9**	3,261.0	(3.6)%	**3,143.9**	3,261.0	(3.6)%
Profit from operations (£m)	**120.5**	100.3	20.1%	**45.1**	43.7	3.2%
Profit before tax (£m)	**94.1**	65.4	43.9%	**15.9**	5.6	183.9%
Earnings per share (p)	**16.8**	25.0	(32.8)%	**2.9**	11.6	(75.0)%
Free cash flow (£m)	**54.6**	92.6	(41.0)%			
Net cash (£m)	**2.9**	3.0	(0.1)			
Net debt (£m) – average month-end	**(216.1)**	(431.9)	215.8			
Order book (£bn)	**9.8**	7.7	2.1			
Supply Chain Financing (£m)	**49.8**	79.1	(29.3)			

1 Reference to 'Adjusted' excludes adjusting items, see note 5.
2 Continuing operations.

Adjusted earnings per share were 16.8p from continuing operations (FY21: 25.0p). This decreased compared to prior year as a result of the dilution from the FY21 equity raise.

The Group generated a free cash inflow of £54.6m (FY21: £92.6m) in the financial year which included a £29.3m repayment of its supply chain finance facility ('KEPS') and the repayment of its deferred HMRC obligations agreed during the pandemic (£20.8m).

Net cash at 30 June 2022 of £2.9m remains at a similar level to prior year.

The Group remains well placed to benefit from the UK Government's commitment to national infrastructure spending. The order book increased by c.27% to £9.8bn at 30 June 2022 (FY21: £7.7bn). 85% of revenue for FY23 is already secured which provides a level of certainty against the backdrop of wider market uncertainty.

The Group continued to win new, high-quality and profitable work in its markets on terms and rates which reflect the bidding discipline and risk management introduced under the Group's Performance Excellence programme.

The order book continues to be underpinned by significant long-term framework agreements and new awards exceeded the prior year.

Revenue from continuing operations

The following table bridges the Group's revenue from the year ended 30 June 2021 to the year ended 30 June 2022.

	£m
Revenue for the year ended 30 June 2021	**3,328.5**
Infrastructure Services	**245.0**
Construction	**(328.3)**
Property and Corporate	**11.3**
Revenue for the year ended 30 June 2022	**3,256.5**

The Group experienced strong growth in Infrastructure Services, primarily due to the ramp up in HS2. Construction revenue decreased as anticipated due initially to delays in work being awarded and then further as projects overcame inflationary pressures. There were also additional transactions in Property compared to the prior year driven by market demand. The Group continues to focus on delivering high-quality and high-margin work.

Alternative performance measures ('APMs')

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

	£m
Adjusted operating profit for the year ended 30 June 2021	**100.3**
Volume/price/mix changes	**1.1**
Additional property transactions	**11.9**
Cost inflation	**(8.1)**
Management actions	**15.3**
Adjusted operating profit for the year ended 30 June 2022	**120.5**

Adjusted operating profit improved compared to the prior year despite the reduction in revenue. The main reasons for this were management actions to reduce costs and increased property transactions compared to FY21, which offset lower volume and inflationary pressures.

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

	Operating profit		Profit before tax	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Reported profit from continuing operations	**45.1**	43.7	**15.9**	5.6
Amortisation of acquired intangible assets	**19.7**	21.0	**19.7**	21.0
Restructuring and related charges	**40.0**	31.6	**40.0**	31.6
Preparation for business divestment or closure	**–**	0.5	**–**	0.5
Other	**15.7**	3.5	**18.5**	6.7
Adjusted profit from continuing operations	**120.5**	100.3	**94.1**	65.4

Additional information about these items is as follows:

– Amortisation of acquired intangible assets £19.7m (FY21: £21.0m):
  Comprises the amortisation of acquired contract rights primarily relating to the historical acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017.

– Restructuring and related charges £40.0m (FY21: £31.6m):
  The Group incurred restructuring costs and related charges in the year totalling £40.0m. The Group completed 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 restructuring activities, a cost of £22.2m was charged in the current year, which represents an extension of the prior year charges. This restructuring is now complete and no future charges are anticipated.

  In addition, £6.5m was incurred on redundancies and other people related costs.

  A total of £7.1m has been charged in respect of professional adviser fees and other non-people initiatives. Of this amount, £3.8m was incurred on financial and legal advisor fees, £1.1m on fire cladding consultation services, £1.0m on closure costs relating to Trade Direct and a further £2.2m on other restructuring activities. This was offset by a £1.1m credit as a result of finalisation of costs incurred on the equity raise in the prior year.

  A further £4.2m relates to fair value movements on the Group's vacated properties. This includes a £5.2m impairment in relation to Fountain Street, Manchester, which has been recognised upon transfer from right-of-use assets to investment properties. This is offset by a net £0.3m fair value uplift on the Group's other investment properties. Following a fire, the land at our recycling plant has been transferred to investment property and has been included at fair value, which has resulted in a £0.7m credit.

– Other costs £18.5m (FY21: £6.7m):
  Other costs include £5.2m in relation to the fire at the Pure Recycling site in Warwickshire, of which £4.1m represents an impairment of the property, plant and equipment. Following the fire, the building has been demolished and the majority of the contracts terminated. The discussions with the insurer are ongoing and as such no insurance proceeds have been recognised in the year.

  Legal and compliance costs of £8.8m include £7.8m of fire compliance and cladding claims that have arisen during the year.

  In addition, £2.2m relates to a software impairment and £2.8m relates to the IFRS 16 interest charge on leased properties that were previously vacated. These are offset by a credit of £0.5m as a result of a Pension Increase Exchange exercise undertaken on one of the Group's pension schemes.

Earnings per share

Earnings per share ('EPS'), before adjusting items, from continuing operations amounted to 16.8p (FY21: 25.0p). EPS, after adjusting items, from continuing operations amounted to 2.9p (FY21: 11.6p).

Finance charges

The Group's finance charges include interest on the Group's bank borrowings, finance charges relating to IFRS 16 leases and forward funding costs relating to development contracts in Property. The Group chooses to forward fund certain developments in Property to de-risk the portfolio.

Interest on bank borrowings amounted to £18.9m (FY21: £23.2m), finance lease charges were £6.5m (FY21: £6.7m) and forward funding costs came to £0.5m.

Finance costs have significantly decreased to £29.9m (FY21: £41.8m) due to a reduction in bank interest primarily as a result of the Group's improved average month end net debt position as well as a decrease in forward funding interest within Property.

The Group continues to exclude lease liabilities from its definition of net cash/(debt).

Balance sheet

Net assets

The Group had net assets of £554.6m at 30 June 2022 (FY21: £435.0m). The primary driver for this is the increase in the pension scheme asset during the year.

Goodwill

The Group held intangible assets of £669.1m (FY21: £697.2m) of which goodwill represented £536.7m (FY21: £536.7m).

The Group completed its review of goodwill at 30 June 2022, assuming a pre-tax discount rate derived from a weighted average cost of capital of 9.0% (FY21: 9.1%), and concluded that no impairment was required.

The Infrastructure Services Cash Generating Unit ('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 12 of the financial statements.

Deferred tax asset

The Group has a deferred tax asset of £108.8m recognised at 30 June 2022 (FY21: £138.0m) primarily due to prior year losses. The asset has decreased in the year primarily due to the deferred tax charge in relation to the movement in the pension scheme asset.

Based on the Group's forecasts, it is expected that the deferred tax asset will be utilised over a period of approximately 10 years.

An adjusted tax credit of £16.3m (FY21: £31.7m) has been included within adjusting items, of which £14.8m (FY21: £12.2m) represents the tax impact of adjusting items.

Free cash flow and Net debt

	2022 £m	2021 £m
Operating profit	**45.1**	43.7
Depreciation of owned assets	**6.6**	6.4
Depreciation of right-of-use assets	**30.0**	33.7
Amortisation	**28.0**	30.9
EBITDA	**109.7**	114.7
Adjusting items excluding adjusting amortisation and interest	**55.7**	35.6
Adjusted EBITDA	**165.4**	150.3
Working capital inflow	**3.7**	109.9
Net capital expenditure including finance lease capital payments	**(46.5)**	(47.0)
Joint Venture dividends less profits	**5.9**	6.6
Repayment of KEPS	**(29.3)**	(46.4)
Other free cash flow items	**9.0**	7.0
Operating free cash flow	**108.2**	180.4
Net interest and tax	**(32.8)**	(26.8)
Free cash flow before COVID-19	**75.4**	153.6
Net COVID-19 tax repayment	**(20.8)**	(61.0)
Free cash flow	**54.6**	92.6

	2022 £m	2021 £m
Net cash at 30 June	**3.0**	(310.3)
Free cash flow	**54.6**	92.6
Adjusting items	**(41.2)**	(72.1)
Pension deficit payments and fees	**(15.0)**	(37.0)
Sales proceeds	**–**	120.8
Equity raise (net of fees)	**(6.1)**	224.8
Purchase of own shares	**(7.0)**	–
Other	**14.6**	(4.4)
Net cash at 30 June	**2.9**	3.0

The Group experienced a free cash inflow during the year, which included a working capital inflow before the repayment of the Group's supply chain facility (KEPS) of £29.3m.

Working capital is driven by seasonality in the business with summer being a higher period of activity compared to winter months. Accordingly, in H2, the Group had a reversal of the H1 working capital outflow. The working capital inflow in FY22 remained lower than FY21 due to the anticipated lower Construction business volumes.

We delivered free cash flow conversion, defined as operating free cash flow as a percentage of adjusted operating profit of 90% for the year. This is in line with the Group's medium-term value creation plan.

The Group's average month end net debt has significantly reduced to £216.1m from £431.9m as a result of the successful capital raise, the sale of Kier Living and free cash flow generation. This was partially impacted by a £38.0m reduction in the average month end KEPS balance, repayment of HMRC Government support of £20.8m and adjusting items of £41.2m.

We anticipate continued progress towards our medium-term plan target of achieving a sustainable net cash position. In FY23, we notwithstanding positive cash flow, expect an increase in average month-end net debt attributable to the HMRC COVID-19 debt repayment and the repayment of KEPS as well as the impact of lower activity in our Construction business until the fourth quarter of the year. In FY24 we expect the reported net debt to decrease with free cash flow generation given the Group's increased order book, expected revenue conversion and associated working capital inflow. The Group also expects a significant reduction in adjusting items.

Government support

As of 30 June 2022, the Group's remaining total indirect tax deferred amounted to £nil (FY21: £20.8m).

Contract assets & liabilities

Contract assets represents the Group's right to consideration in exchange for works which have already been performed. Similarly, a contract liability is recognised when a customer pays consideration before work is performed. At 30 June 2022, contract assets amounted to £397.5m (FY21: £366.4m).

The increase in contract assets is due to the timing of invoicing, the effect of new contracts and significant increases in volumes on HS2.

Contract liabilities were £67.3m (FY21: £59.9m).

Retirement benefits obligation

Kier operates a number of defined benefit pension schemes. At 30 June 2022, the reported surplus, which is the difference between the aggregate value of the schemes' assets and the present value of their future liabilities, was £194.7m (FY21: £46.2m), before accounting for deferred tax, with the movement in the year primarily as a result of actuarial gains of £136.3m.

The Group started the process of its triennial pension valuation in March 2022.

Right-of-use assets and lease liabilities

At 30 June 2022 the Group had right-of-use assets of £80.6m (FY21: £96.5m) and associated lease liabilities of £157.6m (FY21: £163.8m).

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 year.

Treasury facilities

Bank finance

The Group has committed debt facilities of £654.0m with a further £18.0m of uncommitted overdrafts.

These are legacy facilities that have undergone a number of amendments and extensions in recent years. The borrowings comprise of £535.0m Revolving Credit Facility ('RCF'), eq.£111.1 US Private Placement ('USPP') Notes, eq.£7.9m Schuldschein Notes as well as £18.0m of overdrafts.

Following the sale of Kier Living and the equity raise in FY21, the Group successfully extended a number of its committed facilities, including £475.0m of the RCF and eq.£73.3m of the USPP Notes to January 2025.

The Group has eq.£32.6m of USPP Notes and £20.0m of its RCF maturing in December 2022. The Schuldschein Notes are maturing in May 2023 and further £20.0m of the RCF is expected to be repaid in June 2023.

During the year the Group took out a £100m fixed interest rate swap through to September 2023.

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 payables. The balance at 30 June 2022 was £49.8m (FY21: £79.1m). The Group has reduced KEPS over the years. The total reduction since FY19 has been £170.4m which includes the £49.8m, outstanding at 30 June 2022. KEPS was fully repaid subsequent to the year end.

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 were 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 are satisfied that the Group has adequate resources to meet its obligations as they fall due for a period of at least twelve 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.

Further information on this assessment is detailed in note 1 of the consolidated financial statements on pages 153 and 154.

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 2022, 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.

Within this assessment period, the Group's revolving credit facility is scheduled to expire (January 2025). Management would expect to re-finance this facility in the upcoming financial year.

Assessment process

The work required to support the viability statement was undertaken by management, with the following being 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 (and global) economy, 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, inflationary impacts 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 prior financial year (namely the equity raise and the disposal of Living) have strengthened the balance sheet.

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 revolving credit facility is refinanced on substantially the same terms (noted that it is currently scheduled to expire in January 2025);
- The Group operates within its financial covenants under its principal debt facilities during the review period;
- The Group's other 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, including increases in inflation and a rise in interest rates.

Management also considered offsetting mitigating actions that could be taken in such a scenario.

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 2022

Section 172 statement

The Board of Directors believe that during the year, they have acted to promote the long-term success of the Group that has generated value for shareholders and contributed to the wider society, whilst considering the interests of a range of stakeholders as set out in section 172(1) (a) to (f) of the Companies Act 2006.

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 section 172 (1) considerations, were considered.

Section 172 factor	Additional information	Pages
Consequences of decisions in the long term	Our strategy Our marketplace Our business model Risk management	14–17 24–31 36–39 72–83
Interests of the Company's employees	Our key stakeholders Building for a Sustainable World	33 56–65
Foster the Company's business relationships with suppliers, customers and others	Our key stakeholders Our business model Protecting Human Rights Supplier payment days	32–35 36–39 65 65
Impact of operations on communities and the environment	Building for a Sustainable World TCFD report	42–65 66–71
High standards of business conduct	Protecting Human Rights Code of Conduct Anti-Bribery and Corruption	65 90 90
Acting fairly between members	Our key stakeholders Directors' report	32–35 135–138

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.

Reporting requirements	Kier policy/standards[1]	Read more on pages
Anti-corruption and anti-bribery	**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.	65
Employees	**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. **Diversity and Inclusion Policy** The 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 the '5 Respect Basics' included in Kier's Expect Respect campaign and details of how employees can make a complaint under the policy. **Health, Safety and Wellbeing Policy** Kier recognises its responsibility under health and safety legislation and ensures that all workplace risks are identified and mitigated to an acceptable level and that a framework to support the wellbeing of staff is provided. Kier is committed to the provision of strong, visible 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 Health, Safety and Wellbeing Policy sets out how the Group identifies risks and mitigates them to an acceptable level.	56–64

Reporting requirements	Kier policy/standards[1]	Read more on pages
Employees (continued)	**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.	100
Environmental matters	**Sustainability Policy** Kier is committed to preventing environmental and social harm and having a positive impact on the communities and environments 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.	42–55
Human rights	**Code of Conduct** Please see previous page. **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. **Data Protection Policy** Kier's data protection standards are underpinned by this policy as well as the Code of Conduct (see previous page). The policy states that anyone processing Personal Data must comply with the six principles for processing Personal Data contained within data protection legislation. Employees are encouraged to report any data breaches immediately after becoming aware of any data incident and to speak up about any concern or suspicion of a violation of this policy, via the Speak-Up line run by an independent company if they prefer.	65
Social matters	**Sustainability Policy** Please see above.	56–65
Business model	Description of the Group's business model.	36–39
Non-financial KPIs	Description of the non-financial key performance indicators relevant to the Group's business.	41
Principal risks	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.	72–83

1 All Kier Group policies are available on the Kier website: https://www.kier.co.uk/investors/corporate-governance/group-policies/, except for the Diversity and Inclusion Policy, which is not published externally but is available to employees through the Kier intranet.

Implementation of policies

Online training on key policies is carried out across the Group. The training modules include scenarios and tests to enhance the understanding of, and compliance with, the policies by all employees. 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, Safecall) or directly to the Corporate Compliance team. Further information on the confidential helpline can be found on page 100. 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.

The Board and the Risk Management and Audit Committee receive compliance updates from the Group Legal and Compliance Director.
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This Strategic report on pages 1–91 (inclusive) was approved by the Board and signed on its behalf by:

Andrew Davies
Chief Executive

Simon Kesterton
Chief Financial Officer

14 September 2022

Chairman's introduction to corporate governance

Matthew Lester
Chairman

Dear shareholder

The Board has focused on continuing to build solid foundations, and enhancing our governance systems and processes, ensuring we promote long-term success and generate value for our shareholders and stakeholders.

Based on the feedback from the Board effectiveness evaluation last year, the Board meeting structure and agendas have been re-shaped to support this. We increased our understanding of the business by inviting the senior leadership team to discuss their business units. The Commercial Director regularly presents on upcoming major projects and contracts and additionally, delivers an update on order book progress supported with appropriate KPIs. The Board also held a Strategy Day with members of the Executive Committee presenting on their areas of responsibility. This also enables the Board to ensure we have the appropriate leadership and financial and strategic resources to achieve our medium-term value creation plan.

Engaging with our stakeholders

The Board continues to listen to and understand the views of all stakeholders and considers their views in any decisions we make. During the year, the Board received regular updates on conversations and meetings that Andrew Davies and his senior leadership team have had with customers and clients and on the feedback they have received. Key engagement activities with the Cabinet Office and local authorities were also reported. Engagement with shareholders is usually led by Andrew Davies and Simon Kesterton following our results announcement and roadshows. The Board also receives regular updates from the Investor Relations team. The Chief People Officer keeps the Board informed on people matters such as results of employee engagement surveys, recruitment and training programmes, with the focus this year being our wellbeing programme. More information on our engagement with key stakeholders can be found on pages 32–35.

Employee engagement and culture

As I said last year, the Board was unable to spend much time engaging with our colleagues due to the pandemic. I am pleased to report that during the year, the Non-Executive Directors and myself made 20 site visits as part of our Visible Leadership Tours ('VLTs'). This provided an opportunity for us to hear firsthand our employees' views and obtain feedback on a range of issues such as culture and its alignment with our values, the impact of our safety and wellbeing programmes, the huge interest in talent development programmes and progress of our diversity and inclusion initiatives. It also enabled us to deepen our understanding of the operation of the business. We will continue with our VLTs in the coming year and believe this approach is the best method for us to engage with our workforce. Further information on our VLTs and the outcome of our engagement can be found on page 102 and 103.

Diversity & inclusion

As I have set out in my Chairman's statement, Chris Browne will be joining the Board as a Non-Executive Director with effect from 15 September 2022. Following her appointment, we will have 38% women on our Board. We note the upcoming disclosure requirements and the target for 40% of women on boards and the recommendations requiring females to occupy at least one of the roles of Chair, Senior Independent Director, Chief Executive and Chief Financial Officer. The Nomination Committee will consider these further in FY23. I will point out, that we will consider such recommendations carefully in the context of the size of the Board that is appropriate for Kier's size and scope of operations.

The Board believes that diversity is as important at the executive leadership level of Kier to bring diversity in thought, background and experience to make us a better business. Although the gender diversity of senior management has increased over the last two years, there have been continued targeted initiatives and talent development programmes with senior sponsorship and support to ensure we retain and develop managers, with the goal of increasing a diverse pipeline of talent at senior management levels to reflect the diverse customers and communities we serve. The Board will continue to challenge management on the actions undertaken to drive progress against our Diversity and Inclusion roadmap (see pages 56 and 57 for more information on our progress in this area).

Succession planning

As indicated in our Annual Report last year, the Nomination Committee has spent some time reviewing the long-term succession planning for the Board and the Executive Committee members and was briefed on the process undertaken to identity and support our talents during the year. The Nomination Committee report provides insight on the work undertaken during the year to maintain an effective succession plan and ensure it has a diverse pipeline.

Remuneration

The Board acknowledged the 73.93% votes received supporting the Remuneration Report contained in the 2021 Annual Report and the Remuneration Committee have considered the feedback received in their decisions taken during the year. More information can be found in the Directors' Remuneration report.

Code compliance

The Board considers that it has complied with the provisions of the UK Corporate Governance Code during the year. The following pages describe how the Company has applied the Code's principles. I hope you will find them useful. Information on our AGM arrangements this year will be provided in the Notice of Annual General Meeting.

Matthew Lester
Chairman

The UK Corporate Governance Code – compliance

Information on how we have applied the Principles of the 2018 UK Corporate Governance Code (the 'Code') is provided in this Governance report and the Directors' Remuneration report and a guide is provided in the table below. The Code can be found at www.frc.org.uk.

Section 1: Board leadership and company purpose	Where to find further information
Principle A: Board's role and Company's long-term sustainable success, generating value for shareholders and contributing to wider society	Pages 92–100
Principle B: Company's purpose, values, strategy and culture	Pages 14–17 and 100
Principle C: resources, prudent and effective controls	Pages 96, 97 and 106
Principle D: shareholder and stakeholder engagement	Pages 32–35
Principle E: workforce policies and practices and workforce concerns	Pages 100, 102 and 103
Section 2: Division of responsibilities	
Principle F: Chairman's role	Page 98
Principle G: Board balance and division of responsibilities	Page 98
Principle H: Non-Executive Directors' time and role	Page 98
Principle I: information and resources	Page 97
Section 3: Composition, succession, and evaluation	
Principle J: Board appointments	Pages 112 and 113
Principle K: Board and Committee composition, skills and tenure	Pages 94 and 95
Principle L: Board evaluation	Page 100
Section 4: Audit, risk and internal control	
Principle M: policies and procedures for internal and external audit	Pages 106, 107 and 109
Principle N: fair, balanced and understandable	Page 109
Principle O: risk and internal control framework, principal risks and risk assessment and management	Pages 72–83, 106
Section 5: Remuneration	
Principle P: remuneration policies and practices	Pages 114–134
Principle Q: Director and senior management remuneration	Pages 114–134
Principle R: independent judgement and discretion on remuneration	Pages 114–134

The Board 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.

Board of Directors

Matthew Lester
Chairman

N **R**

Age 59

Tenure 2 years 8 months

Independent Yes (on appointment)

Relevant skills and experience
- A chartered accountant, having trained and qualified at Arthur Anderson
- Substantial strategic and financial experience, through senior finance roles at Diageo plc and as Group Finance Director of ICAP plc and Chief Financial Officer of Royal Mail plc
- Significant non-executive director experience at Man Group plc, Barclays PLC and Capita plc

Principal current external appointments
- Non-Executive Director of Intermediate Capital Group plc and Chair of the Audit Committee

Andrew Davies
Chief Executive

N

Age 58

Tenure 3 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 plc
- Formerly Chief Executive Officer of Wates Group Limited

Principal current external appointments
- Non-Executive Director of Chemring Group PLC and Senior Independent Director

Simon Kesterton
Chief Financial Officer

Age 48

Tenure 3 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 plc
- Significant experience of the implementation of cost reduction, M&A and profitability improvement programmes

Principal current external appointments
- None

Justin Atkinson
Senior Independent Director

E **N** **R** **RA**

Age 61

Tenure 6 years 11 months

Independent Yes

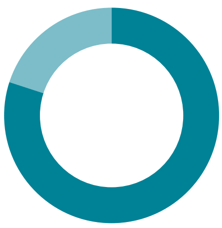
Relevant skills and experience
- A chartered accountant, having trained and qualified at a predecessor firm of PwC
- Formerly Chief Executive of Keller Group plc and previously Keller's Group Finance Director and Chief Operating Officer
- Significant operational, financial and strategic experience
-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

Principal current external appointments
- Chairman of Forterra plc and formerly the Senior Independent Director and Chair of the Audit Committee
- Non-Executive Director of James Fisher & Sons plc and Chairman of the Audit Committee

Board Committees key

- **E** Environmental, Social and Governance Committee
- **N** Nomination Committee
- **R** Remuneration Committee
- **RA** Risk Management and Audit Committee
- ■ Chair of the Committee

Tenure of Non-Executive Directors (as at 14 September 2022)



- Less than 3 years: 4
- 3–6 years: 0
- Over 6 years: 1

Alison Atkinson FREng, MICE CEng
Non-Executive Director

E N R RA

Age 52

Tenure 1 Year 9 months

Independent Yes

Relevant skills and experience
– Significant operational experience in large scale national infrastructure
– Senior experience of oversight of civil engineering and contracting through her roles at AWE plc, and previously at Halcrow
– Member of the Royal Academy of Engineering

Principal current external appointments
– Chief Executive Officer of AWE plc

Chris Browne OBE
Non-Executive Director

E N R RA

Age 62

Tenure Appointed with effect from 15 September 2022

Independent Yes

Relevant skills and experience
– Significant commercial and operational experience through senior leadership positions in the aviation industry
– Most recently as Chief Operating Officer of easyJet plc until June 2019, and she also served as their non-executive director from January to September 2016
– Experience of the construction sector through her role as a Non-Executive Director of Vistry Group plc

Principal current external appointments
– Non-Executive Director of Vistry Group plc
– Non-Executive Director of Norwegian Air Shuttle AS
– Non-Executive Director of Constellium SE

Clive Watson
Non-Executive Director

E N R RA

Age 64

Tenure 2 years 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 plc
– Experience of the engineering sector through his roles at Borealis AG and as a Non-Executive Director at Spirax-Sarco Engineering plc
– Detailed knowledge of systems of risk management and internal control

Principal current external appointments
– Senior Independent Director and Chair of the Audit and Risk Committee of Breedon Group plc
– Chair of the Audit and Risk Committee of discoverIE Group plc
– Senior Independent Director and Chair of the Audit and Risk Committee of Trifast plc

Dame Heather Rabbatts
Non-Executive Director

E N R RA

Age 66

Tenure 2 years 5 months

Independent Yes

Relevant skills and experience
– Significant operational experience in the local government and, in particular, the entertainment and sports sectors
– Experience of the contracting sector through her previous role as a Non-Executive Director of Crossrail Limited
– 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 plc
– Chair of Soho Theatre Company Limited

The Governance framework at Kier

Board

– Accountable to shareholders and responsible for the long-term success of the Group
– Provide leadership of the Group, establishing the purpose, values and strategy
– Monitors the implementation of the strategy, safety, financial, operational, environmental and social performance of the Group
– Ensures that appropriate risk management systems and internal controls are in place
– Sets the Group's ethics and culture
– Ensures good corporate governance practices are in place

Board Committees

Environmental, Social and Governance Committee

– Reviews the Group's strategy with respect to safety, environment, social and ethical business practice

See page 110

Nomination Committee

– Makes recommendations to the Board regarding the structure, size, composition and succession needs of the Board and its Committees
– Oversees succession planning for Directors and the Executive Committee

See page 112

Remuneration Committee

– Sets the Group's Remuneration Policy for Directors
– Sets and monitors the level and structure of remuneration for the Executive Directors and other senior executives

See page 114

Risk Management and Audit Committee

– Oversees financial reporting procedures, systems of internal controls and risk management, the internal audit function and the effectiveness of the external auditor

See page 104

Executive Committee

– Discusses Group and business units' performance
– Reviews and approves material operational matters such as safety, IT, digital, business assurance and compliance, HR, environment, social and wellbeing

See page 11

The Executive Committee is also supported by several Operational Committees and steering groups including the Group Risk Committee, the Investment Committee, the Group Tender Risk Committee and Sustainable Leadership Forums.

The Board

The Board is responsible for the effective leadership and promotes the long-term sustainable success of the Group, generating value for shareholders and contributing to the wider society. It is responsible for setting the Group's purpose 'to sustainably deliver infrastructure which is vital to the UK' and the strategy for achieving this. The purpose sets out why Kier exists, the market segments we operate in across the UK and acts as a guide to everything we do. Our strategic actions are set out on page 14. We continue to be guided by our values in what we do and our culture for how we undertake our activities.

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 Kier'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 provide strategic guidance and constructive challenge to the Executive Directors. In addition, they scrutinise and hold to account the performance of management and the Executive Directors.

Biographies of the Board are set out on pages 94–95.

The Executive Committee

The Executive Committee is chaired by the Chief Executive and ordinarily meets monthly. It oversees the implementation of the strategy and its operations, including, for example, monitoring of business stream performance, consideration of government and customers, people, environment, safety and wellbeing, and Performance Excellence matters.

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 the respective business streams, in line with the Operating Framework and the Group's Delegations of Authority 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.

Division of responsibilities

Chairman
Responsible for the effective operation, leadership and governance of the Board
- Chairs Board meetings, Nomination Committee meetings and the Annual General Meeting
- Sets the Board agenda with the Chief Executive and Company Secretary
- Facilitates active engagement by all Directors
- Ensures the Directors receive accurate, timely and clear information
- Sets the tone and style of Board discussions

Chief Executive
Responsible for proposing strategy to the Board and delivering it
- Runs the business
- Ensures the Board is aware of current business issues
- Communicates the Board's expectations with regard to values, behaviours and culture

Chief Financial Officer
Responsible for the Group's financial affairs
- Contributes to the management of the Group's business
- Supports the Chief Executive with the development and implementation of the strategy

Non-Executive Directors
Responsible for overseeing the delivery of the strategy
- Advise and constructively challenge the Executive Directors
- Scrutinise the performance of management in achieving agreed objectives and goals and monitor the reporting of performance
- Perform their duties diligently and use best endeavours to promote, protect, develop and extend the business of the Group
- Devote time to develop and refresh knowledge and skills

Senior Independent Director
Responsible for ensuring that the Chairman's performance is evaluated
- Acts as a sounding board for the Chairman and supports him in the delivery of his objectives
- Serves as an intermediary with the Chairman for other Directors if necessary
- Maintains a comprehensive understanding of the major issues of shareholders and is available if shareholders have any concerns that they have been unable to resolve through the normal channels

Company Secretary
Responsible for maintaining the governance and listing rules compliance framework
- Supports the Chairman, Chief Executive and Committee Chairs in setting agenda items for Board and Committee meetings
- Assists the Chairman and the Chief Executive in ensuring that the Directors are provided with relevant information in a timely manner
- Organises inductions for new Directors and ongoing training for all Directors
- Advises the Board on developments in corporate governance, legislation and regulation

Board principal activities for the year ended 30 June 2022

The Board held seven scheduled meetings during the year and a meeting to discuss strategy. The principal activities held by the Board during the financial year were as follows:

Strategy

- Received an update from the Executive Committee on the progress of the implementation of the Strategy including ESG, people, IT and digital strategies and culture change within each business unit
- Monitored progress against the medium-term value creation plan

Business/operational

- Received updates on the progress of our key contracts and projects, and order books
- Received regular updates on our Health and Safety metrics, IT performance
- Received regular updates on the progress of our Performance Excellence workstreams
- Undertook deep dives into certain business units to understand their challenges, opportunities and meet the management team
- The Board received an in-depth update on Health and Safety matters including legislative and market updates and key trends

Financial

- Approved the full-year results and the Annual Report and financial statements for the 2021 financial year
- Approved the half-year results for the 2022 financial year
- Agreed the Viability Statement as disclosed in the Annual Report
- Approved the going concern basis of accounting in preparing the half-year and full-year results
- Approved the Group's Tax Strategy statement
- Approved the budget for the 2023 financial year
- Regularly reviewed the Group's financial performance and forecasts

Leadership and people

- Received updates on the Group's people agenda including progress on diversity and inclusion, Expect Respect campaign, employee engagement surveys, and development and talent programmes
- The Board received training on diversity and inclusion with particular focus on racial and ethnic diversities

Internal control and risk management

- Considered and agreed the Group's risk appetite and principal risks
- Assessed the effectiveness of our internal control and risk management systems

Governance and stakeholders

- Received feedback from institutional investors and analysts
- Approved the Modern Slavery Statement
- Received updates on our whistleblowing programme and compliance matters
- Received regular updates from our Investor Relations team on the views of our shareholders and received an update on capital markets from our brokers as part of its Strategy day
- The Board completed the Code of Conduct and Share Dealing training programme

Engagement activities with other key stakeholders are set out on pages 32–35 in the Strategic report. How the Board took account of these engagements and the matters set out in section 172 of the Companies Act 2006 in Board discussions and decision-making are set out on page 90.

Board and Committee meeting attendance

Details of attendance by each Director at the principal Board meetings during the financial year are as follows:

Director	Board
Matthew Lester	8/8
Alison Atkinson	8/8
Justin Atkinson	8/8
Andrew Davies	8/8
Simon Kesterton	8/8
Dame Heather Rabbatts	8/8
Clive Watson	8/8

In addition, there were two unscheduled Board calls during the year. Attendance at Board Committee meetings is set out in the respective Committee sections.

Board evaluation

The Board made good progress on the recommendations and agreed areas of focus from last year's externally facilitated review. These include appointment of a further Non-Executive Director, site visits by Non-Executive Directors, succession planning for Board and Executives and enhancing diversity and inclusion. The Board's work on these areas is reported throughout the Corporate Governance report.

2022 Board evaluation

This year's Board evaluation took the form of a questionnaire and feedback was sought from all the Board members. The questionnaire sought input on a range of matters including culture, engagement with stakeholders, effective oversight of targets and objectives, quality of discussion and papers. Please see pages 106, 111, 113 and 130 for information about the effectiveness evaluation of each of the Committees conducted this year.

The outcome of the evaluation was discussed by the Board and showed that the Board is operating well. The review identified areas that could improve the Board's performance such as continued focus and monitoring of the delivery of our medium-term value-creation and plan and strategy; and succession planning.

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 Board receives updates and monitors the delivery of each of the five Performance Excellence workstreams – People, Processes, Project Execution, Cash Management and Future of Work. As part of the Strategy Day, the Board was updated of the evolution of culture change within each business unit.

The Chief People Officer regularly attended Board meetings to inform the Board of people matters and assist the Board with its oversight of culture in the Group. 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 pulse 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
- 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 also received updates on the progress of the behavioural programme that was launched during the year.

Whistleblowing

In order that employees can report any matters of concern in confidence, the Group makes available an externally-hosted, confidential whistleblowing helpline, provided by Safecall. During the year, the Board reviewed reports which provided details of the issues reported to the helpline and how management had investigated them. There were 40 calls made in FY22 (FY21: 48). The reduction is primarily due to the decreased number of employees following the sale of Kier Living and a general downward trend following the pandemic.

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 FY22.

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 Group.

Annual General Meeting

The AGM gives all shareholders the opportunity to ask questions of the Board. The details of the 2022 AGM are set out in the Notice of the AGM. Votes received in respect of each resolution put to the AGM, together with the number of abstentions, are announced through a regulatory information service and published on Kier's website. Shareholders may submit proxy votes and any questions either electronically or by post.

Governance in action: HS2 Board visit

Excavation to 30 June 2022

9 million m^2

equivalent to 3,600 Olympic-sized swimming pools

Engagement with community during the year

5,000 people

over 650 events

CO_2 savings achieved (against a 50% target)

33%

Site visits: Engaging with our people

Due to the nature and locations of the business and that Kier's workforce comprises individuals with a wide range of skills and experiences, the Board concluded that each Board member has responsibility for engaging with the workforce and subsequently reporting back to the Board (both directly and via the Chief People Officer's report). The Board was pleased that it was able to resume face-to-face meetings with our workforce following difficulties due to COVID-19 last year. During the financial year, the Chairman and Non-Executive Directors undertook a total of 20 visits.

These visits are structured in a way to allow the Directors to get an overview of the project, speak directly to the workforce by way of question-and-answer sessions and provide visible leadership to the workforce on site. The Board had the opportunity to listen to employees' views on a wide range of areas such as Kier's performance, visibility of leadership, impact of our safety and wellbeing programmes, diversity and inclusion initiatives and talent development programmes.

Some of the Chairman's site visits also took the form of two-day visits to a regional location, which included presentations from the regional business team on their recent projects, performance, challenges and opportunities in the region and deeper engagement with a small group of the workforce and the management team.

Risk Management and Audit Committee report

“The Committee has continued to oversee the development of the Group’s risk management and internal control systems and continued its usual review of accounting judgements and key disclosures.”

Clive Watson
Chairman of the Risk Management and Audit Committee

Committee membership and attendance

Name	Attendance
Clive Watson (Chairman)	4/4
Justin Atkinson	4/4
Alison Atkinson	4/4
Dame Heather Rabbatts	3/4

*Dame Heather Rabbatts was unable to attend a meeting due to a prior commitment.

The Chief Executive, Chief Financial Officer, Commercial Director and Group Legal and Compliance Director also attended the Committee’s meetings during the year.

The secretary of the Committee is the Company Secretary.

Key activities during the year

- Reviewed the Group’s financial results prior to announcement, external audit findings and ancillary matters including Going Concern and the Viability Statement
- Reviewed the assessment of the Group’s system of risk management and internal control
- Evaluated the effectiveness of the internal and external auditors
- Reviewed the progress against the FY22 internal audit plan, approved the FY23 internal audit plan
- Received risk management updates, reviewed the corporate risk register and reviewed and approved the Kier risk maturity assessment
- Reviewed and approved the Group’s tax strategy
- Received regular updates on fraud prevention and detection processes

Role of the Committee

- 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 and reputation), 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
- 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.

The Committee’s Terms of Reference were updated during the year. Further details of the Committee’s responsibilities can be found on the Company’s website.

Clive Watson
Chairman of the Risk Management and Audit Committee

Dear shareholder

I am pleased to present the work of the Risk Management and Audit Committee ('RMAC') for the year.

The Committee has continued its usual review of accounting judgements and key disclosures on key accounting matters including contract accounting and adjusting items whilst overseeing the effectiveness of our external auditor. During the year, the Group had engagement with the FRC in relation to their audit of the Group's FY17 financial statements. The Committee will continue to monitor and challenge the audit quality, the effectiveness of the external audit and PwC's performance. Information on the audit effectiveness, tenure and tender is set out on pages 107 and 109.

The Group's systems of risk management and internal control continue to develop during the year under the co-sourced model with Deloitte. Management has been working on the implementation of controls and processes to strengthen our risk, controls and assurance framework and whilst significant progress has been made, the work will continue in the coming year.

Our role has expanded to monitor the Group's fraud prevention and detection processes and in light of the current geopolitical climate, this will remain an area of focus in the forthcoming year. The Committee will additionally continue to monitor the progression of the Audit Reform Bill that was announced in May 2022 and the impact that this legislation will have on the overall Group.

Information on the following pages sets out in detail the composition of the Committee, its activities and priorities going forward. I hope that you will find this report useful in understanding our work.

Clive Watson
Chairman of the Risk Management and Audit Committee

Composition of the Committee

In line with UK Corporate Governance Code recommendations, the Board has confirmed that all members of the Committee are Non-Executive Directors and have been appointed to the Committee based on their individual financial and commercial experience. The Committee members provide shareholders and other stakeholders with assurance that oversight, and where appropriate, challenge is appropriately provided. As a chartered accountant and having formerly been the Finance Director of a listed company together with my experience as the Chair of the Audit Committees of other listed companies, I am considered by the Board to have recent and relevant financial experience in accounting and auditing. In addition, Justin Atkinson is also a qualified accountant.

During the year under review, the following have also attended Committee meetings:

- the Chairman, the Chief Executive, Chief Financial Officer and the Group Commercial Director;
- the Group Financial Controller together with representatives from PwC as external auditors; 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.

Outside of the formal meetings, the Chair of the Committee held discussions with members of management (including the Chief Financial Officer and the Group Financial Controller) and with our external auditors.

The Committee meetings also provide the opportunity for the Non-Executive Directors to meet privately without the Executive Directors present and no concerns were raised.

Annual evaluation

The Committee has made good progress in the recommendations to implement the areas of development from the prior year's externally-facilitated evaluation that included the rigour and structure of papers and to increase the time allocated for Risk and Internal Audit matters as the Group continues to develop the 'three lines of defence model'.

This year's evaluation was performed by way of questionnaire and feedback was sought from the Committee members and regular attendees. The outcome of this evaluation was discussed by the Committee. It was concluded that the Committee is operating effectively but agreed to maintain focus on improving discussion on risk management to get further insights. The tender process for external audit services will also be an area of focus for the Committee.

Systems of risk management and internal control

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 and the Commercial Director report 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, is set out on pages 72–83.

During the year, the Committee has overseen the continued development of the Group's systems of risk management and internal control, together with the development of the Internal Audit function under the co-sourced model with Deloitte that was introduced in FY21. Management has been working on the implementation of controls and processes to strengthen our risk, controls and assurance framework in view of the upcoming Audit Reform Bill. Whilst significant progress has been made, the work will continue in the coming year. A review of the 'three lines of defence model' was undertaken and the Committee received updates on how it has been implemented in our risk management and the work undertaken to improve the second line of defence.

Annual review of the effectiveness of the systems of risk management and internal control

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. This year's review covered existing risk management practice and processes; risk appetite and culture; consideration of the review of the operation of the three lines of defence; the Operating Framework and its policies, minimum standards and procedures in relation to managing technical, commercial, legal and financial risks; compliance controls; financial monitoring, reporting and internal control processes. It was concluded that, overall, the systems of risk management and internal controls are functioning effectively.

Internal audit

During the year, the Committee monitored progress against the FY22 internal audit plan and the integration of Deloitte as co-source provider. 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.

The audits undertaken in FY22 covered a range of areas, including IT outsource, financial reporting controls, retention of workforce, environmental sustainability framework and procure-to-pay financial controls. 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. Results from these audits were discussed by the Committee, together with the follow-up actions taken by management.

The Committee received, considered and approved the annual internal audit plan, which was constructed using a risk-based approach with input from senior management and previous audit findings. The audits will focus on a number of areas including environmental sustainability as we develop our Sustainability Framework, diversity, equality and inclusion (to include the protection of human rights) and specific aspects of the Group's financial controls.

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. The Committee concluded that, overall the Internal Audit function was operating effectively within its remit.

Financial reporting
The Group has clear policies and procedures which are designed to ensure the reliability and accuracy of financial reporting, including the progress 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 108.

Engagement with the FRC
During the year, the FRC published their Decision Notice following an investigation into PwC's FY17 audit of the Group. Kier had the opportunity to engage with the FRC prior to its publication. PwC updated the Committee on the background as to why this matter was investigated, the findings contained in the Decision Notice, some of the remedial actions PwC has already taken around these issues and the further next steps which PwC has agreed with the FRC.

External audit
FY22 audit
The Committee has taken the following key steps in overseeing the FY22 external audit by PwC:
- Reviewed the PwC FY22 audit plan, resources and audit risk assessments;
- Agreed the materiality level for the audit;
- Reviewed and agreed the timetable for the Annual Report and audit plans, including the key areas of focus;
- Agreed and approved the final audit fee;
- Discussed and reviewed the Going Concern and Viability Statement;
- Discussed and reviewed the audit findings, significant issues and other accounting judgements;
- Approved the representation letter, following a review by management; and
- Noted PwC's independence and agreed to propose the reappointment of PwC at the 2022 Annual General Meeting.

External auditor effectiveness and audit quality
The Code requires the RMAC 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 FY21 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 FY21 financial year was effective and that PwC provided an appropriate independent challenge to management.

As part of this review, it was noted that lessons had been learnt from the FY20 effectiveness assessment and that the areas that had been identified as areas of focus had largely been delivered upon through the FY21 audit. PwC and management jointly identified a number of areas of focus which were used to develop an audit improvement plan for the FY22 financial year.

The Committee will formally assess PwC's performance in relation to the FY22 audit following its completion.

Significant matters and accounting judgements relating to the financial statements

The Committee reviewed the following significant matters and other accounting judgements relating to the 2022 financial statements:

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 FY22 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 discussed PwC's audit 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 2022 financial statements.
Impairment of goodwill	The review of the carrying value of goodwill in Infrastructure Services was identified as a key area of focus for the FY22 audit. Having discussed the review with management and PwC, the Committee 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 2022 financial statements as to the potential sensitivity of the available headroom in the impairment model to changes in key assumptions.
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 i) reviewed the policy wording during the year and confirmed its ongoing application; ii) reviewed the individual items excluded from adjusted operating profit, and iii) agreed the classification of, and disclosures relating to the adjusting items presented in the 2022 financial statements, ensuring that APMs are presented with equal or lesser prominence than statutory figures and on a consistent basis year-on-year.
Going concern/Viability Statement	In conjunction with PwC, the Committee reviewed and assessed the work undertaken to support the adoption of the going concern basis for the 2022 financial statements and the viability statement. In particular, the Committee and the Board reviewed the Group's cash flow forecasts over the period ending 31 December 2023, in assessing the going concern basis; and over a period of three years from 30 June 2022 for the viability statement, which are included in the Group's three-year strategic plan together with the assumptions on which such forecasts are based. The Committee 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. For further information on the work to support the going concern basis of preparation for the 2022 financial statements, please see 'Going concern' on pages 153 and 154 and further information on the work to support the viability statement can be found on page 89.
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 2022 audit. Following PwC's review, the Committee concluded that no impairment was required against the carrying value of the investment held by the Company in Kier Limited.
Retirement benefit obligations	The Group operates a number of defined benefit pension schemes. The Committee reviewed the assumptions made by management in determining the defined benefit surplus at 30 June 2022. This included considering the advice from independent qualified actuaries, together with the views of PwC's pension specialists, and concluded that they were appropriate.

Provision of 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 Chief Financial Officer had authority to approve up to £10,000 on individual assignments. However, following an annual review, the Committee amended the approval limit to £50,000. For non-audit fees above £50,000, these must be approved in advance by the Committee and if approval is required urgently, this may be provided by the Chair of the Committee with 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 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 FY22 were £152,000. These non-audit fees related to PwC's work in relation to their review of the Group's 2022 half-year results. 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 £152,000. This represented 5% of the average audit fees over the previous three years.

External auditor independence

The Committee concluded that PwC's independence and objectivity were not compromised by the provision of these services. As part of the FY22 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. A resolution to re-appoint PwC as the external auditor will be proposed at the 2022 Annual General Meeting.

Tenure

PwC was appointed as external auditors in 2014 for the financial year ended 30 June 2015 following a competitive tender process. In accordance with audit regulation, PwC operate a policy of rotating the Audit Partner every five years. Andrew Paynter was appointed as the lead audit partner in January 2019. Under the current tenure rules, the last year that PwC can audit the financials without a formal competitive tender process having taken place is FY24. Accordingly, the Committee has determined that it is in the best interests of shareholders to commence a competitive tender of external audit services, with the tender to take place in 2023 following which a recommendation would be proposed at the Company's 2023 Annual General Meeting. For this financial year, the Committee considers that the Group has complied with the Competition and Markets Authority's Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

There are no contractual obligations that restrict the Committee's choice of external auditor.

2022 Annual Report – fair, balanced and understandable statement

The Board and 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.

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.

Environmental, Social and Governance Committee report

"Our new Health, Safety and Wellbeing strategy has been developed which ensures safety remains our licence to operate, helping to maintain Kier as a safe, sustainable and attractive place to work."

Alison Atkinson
Chair of the ESG Committee

Committee membership and attendance

Name	Attendance
Alison Atkinson (Chair)	3/3
Justin Atkinson	3/3
Dame Heather Rabbatts	3/3
Clive Watson	3/3

The Chairman, Chief Executive, Chief Financial Officer, Chief People Officer, Commercial Director and Group Legal and Compliance Director also attended the Committee's meetings during the year.

The secretary of the Committee is the Company Secretary.

Key activities during the year

- Reviewed the Group's approach and re-alignment of the health, safety, wellbeing and environmental and social sustainability functions and agendas to establish better focus to our purpose, core strategic objectives and client drivers
- Monitored the performance of our safety targets and oversaw the launch of the revised health, safety and wellbeing strategy along with the behaviour culture programme
- Reviewed the progress on our wellbeing programmes
- Reviewed the governance framework concerning ethical business practice
- Reviewed our response to TCFD disclosure requirements and our climate-related risk assessment and opportunities

Role of the Committee

- Reviewing the Group's strategy and policies with respect to environment, social and governance matters
- Reviewing the initiatives and monitoring performance against the health, safety, wellbeing and environmental and social sustainability targets
- Reviewing the corporate policies and monitoring their implementation relating to responsible and ethical business practice and our proactive risk management approach
- Reviewing external reporting of sustainability performance

The Committee's Terms of Reference were updated during the year. Further details of the Committee's responsibilities can be found on the Company's website.

Alison Atkinson
Chair of the ESG Committee

Dear shareholder

This is my first ESG Committee report following the broadening of the Health and Safety terms of reference to include wider environmental and social matters that are fundamental to Kier's purpose. While good progress has been made in transforming the Group safety performance, the Accident Incident Rate ('AIR') has remained static at best. To further improve safety, targeting a zero AIR, a focus on behaviours, health and wellbeing is fundamental to improvements.

During the year, the SHE (Safety, Health, Environment) and Social functions were restructured and re-aligned to report into the Chief People Officer. This aligns to our Responsible Business approach and links our people, health, safety and wellbeing, environmental and social agendas. These changes ensure greater alignment of strategic priorities and a focus on driving better employee wellbeing and engagement. Our new Health, Safety and Wellbeing Strategy has been developed to place safety as our cornerstone of ESG and remains our licence to operate. It integrates our behaviours and wellbeing programmes that complement our people strategy. This maintains Kier as a safe, sustainable and attractive place to work. Under this restructure, the safety agenda was reviewed. We also took a holistic view of forward-facing threats and opportunities to ensure the basics are in place, understood and measured. One of the outcomes from this review was the launch of our culture programme designed to create an environment where our people feel empowered and where we focus on our people's physical and mental safety and wellbeing.

Principal activities during 2022 financial year

The Group's 12-month rolling Accident Incident Rate ('AIR') of 115 represents an increase of 9% compared to 105 in FY21. This AIR rate is calculated by headcount and therefore volume adjusted and equates to 28 RIDDOR incidents in FY22 compared to 29 in FY21. This further demonstrates the static nature of our RIDDOR incident rate currently. While we are disappointed with this plateau, our safety performance continues to be an area of focus and we do still retain a solid safety record that is c.58% better than industry benchmark.

Our All Accident Incident Rate ('AAIR') of 316, which captures all incidents, represents a decrease of 5% when compared to FY21. This reduction demonstrates our wider commitment to reducing all incidents across our projects. A key focus throughout this coming year will be the review of our metrics and targets. Ensuring a greater emphasis on leading indicators so that action plans can be developed to mitigate all incidents.

Much focus has been given to our wellbeing programme this year as we look to develop a broader proposition incorporating reward, benefits and occupational health in Kier. Investing in our people's health and wellbeing to ensure they stay healthy, energised, valued and supported will in turn drive strong performance, including across our safety metrics. The Committee received updates on the activities to strengthen support to our people. Wellbeing is also one of our FY23 Performance Excellence workstreams and this will be a continued area of focus in the 2023 financial year.

The Committee was kept informed on the excellent activities under the social element of the ESG agenda such as our work on our communities, Kier Foundation – an independent registered charity, apprenticeship schemes, sustainable procurement and the implementation of our new social value calculator, Thrive, and our progress against the achievement of our social value target.

The Committee received a presentation, from the consultant who supported Kier, on our response to TCFD (Task-force on Climate-related Financial Disclosure), which came into force this year. The integration of the climate-related risks and opportunities into our overall risk management and action plans to mitigate the risks will be monitored by the Committee.

Data gathering of our scope 3 emissions took place during the financial year which will enable Kier to have a baseline of our full carbon footprint to support KPI management and monitoring. The Committee will continue to monitor progress against the achievement of our environment targets and ambition to achieve net zero by 2045.

The Group Legal and Compliance Director oversees the Governance element of this Committee's remit. This primarily focuses on ethical business practice such as the business assurance framework encompassing certifications, policies and procedures, Code of Conduct and Modern Slavery.

Annual evaluation

Suggestions from the prior year externally-facilitated evaluation were taken forward, notably focused on Kier's culture around safety and sustainability with supporting papers to include forward-looking elements and providing broader context to the issues.

This year's evaluation was performed by way of a questionnaire and feedback was sought from its Committee members and regular attendees. The outcome of this evaluation was that although a relatively new Committee, it is making good progress and areas for improving the Committee's performance next year were identified.

Conclusion

For the coming year, the Committee will continue to monitor the implementation of the ESG strategy (under the health, safety and wellbeing strategy and Building for a Sustainable World Framework), as part of our reframed responsible business approach. As set out in the Chairman's statement, we will oversee the development of a plan with milestones to deliver our ESG ambition and align the ESG performance targets with our remuneration policies.

Alison Atkinson
Chair of the ESG Committee

Nomination Committee report

“The Committee will continue to oversee the succession planning for the Executive Committee members and established succession plans for Board changes.”

Matthew Lester
Chairman of the Nomination Committee

Direct reports to the Executive Committee that are women

37%

Committee membership and attendance

Name	Attendance
Matthew Lester (Chairman)	2/2
Alison Atkinson	2/2
Justin Atkinson	2/2
Andrew Davies (from November 2021)	2/2
Dame Heather Rabbatts	2/2
Clive Watson	2/2

The Chief People Officer attended the Committee’s meetings during the year by invitation.

The secretary of the Committee is the Company Secretary.

Key activities during the year

- Led the search for the appointment of Chris Browne as a Non-Executive Director
- Long-term succession planning for Executive Directors and Executive Committee members
- Deepened its understanding of the development of a diverse pipeline for succession of Executive Committee members

Role of the Committee

- Providing a formal, rigorous and transparent procedure for the appointment of new Directors to the Board
- Maintaining an effective succession plan for the Board and senior management
- Overseeing the development of a diverse pipeline for succession to these bodies

The Committee’s Terms of Reference were updated during the year. Further details of the Committee’s responsibilities can be found on the Company’s website.

Matthew Lester
Chairman of the Nomination Committee

Dear shareholder

During the 2022 financial year, the Nomination Committee focused on the long-term succession planning for Executive Directors and Executive Committee members. An overview of the talent process which Kier undertakes annually was received and was endorsed as being thorough and fit for purpose. The improvement in the diversity of the internal talent pool was noted and work is continuing in this area; further information on the journey of our Diversity and Inclusion roadmap is set out on pages 56 and 57.

The Nomination Committee led the search for the appointment of Chris Browne as a Non-Executive Director during the year and she will join the Board with effect from 15 September 2022. Chris has in-depth experience in commercial and operational areas including ESG and digital topics which are particularly valuable to the Board currently. Further information on the appointment process is set out below.

In relation to senior management, the Committee noted the appointment of Andrew Bradshaw to the Executive Committee as Group Managing Director, Utilities following the retirement of Barry McNicholas; and the appointment of Helen Redfern as Chief People Officer in recognition of her expanded responsibilities for Kier's health, safety and wellbeing and environmental and social sustainability strategies, alongside our diversity and inclusion roadmap.

In the year ahead, the Committee will continue to oversee the succession planning for the Executive Committee members and ensure that we have a steady supply of talent for executive positions and established succession plans for Board changes. It will monitor and support the specific development plans for key individuals, which include a programme for the Non-Executive Directors to get to know these people better.

Diversity 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 through consideration of shortlisting candidates and instructing search firms to take diversity into account for shortlisting before putting candidates forwards. Accordingly, candidate lists reflected the benefits of diversity and priority was given to search firms which have signed up to the Voluntary Code of Conduct for Executive Search Firms.

The Board is conscious of the FTSE 350 target of 33% women representation on boards and leadership teams and also notes the upcoming disclosure requirements and target for 40% of women on boards and the recommendations requiring females to occupy at least one of the roles of Chair, Senior Independent Director, Chief Executive and Chief Financial Officer. The Committee will consider these further in FY23. As at the date of this report, 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.

Appointment process of Chris Browne

The Chairman led the search together with support from the Chief People Officer and the Company Secretary. Egon Zehnder, a signatory to the Voluntary Code of Conduct for Executive Search Firms, was instructed to identify a diverse long-list of potential candidates for the non-executive role search in the year. A sub-set of the Committee comprising the Senior Independent Director and the Chief Executive also supported the search process. The outcome of which culminated in the recommendation to the Board to approve the appointment of Chris Browne as a Non-Executive Director. Her biography can be found on page 95.

Annual evaluation

This year's evaluation was performed by way of a questionnaire and the output was reported to the Committee. This concluded that the Committee is increasingly effective and has very good visibility of the strengths and challenges for succession.

The Committee reviewed the performance of the Chief Executive and reported its conclusions to the Remuneration Committee. The Senior Independent Director, led the review of the performance of the Chairman which included getting feedback from the Board and the Company Secretary. The outcome of the review was reported to the Chairman.

Matthew Lester
Chairman of the Nomination Committee

"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 Group's long-term strategy by the Executive Directors and Senior Management."

Dame Heather Rabbatts
Chair of the Remuneration Committee

Committee membership and attendance

Name	Attendance
Dame Heather Rabbatts (Chair)	3/3
Alison Atkinson	3/3
Justin Atkinson	3/3
Matthew Lester	3/3
Clive Watson	3/3

The Chief Executive, the Chief Financial Officer and the Chief People Officer also attended the meetings during the year. Willis Towers Watson, independent adviser, was also in attendance.

The secretary of the Committee is the Company Secretary.

Key activities during the year

- Consulted with key shareholders following the voting outcome of the 2021 AGM
- Assessed and approved the FY22 bonus payment and vesting of the 2019 LTIP share awards to ensure an outcome that was fair and robust
- Reviewed and approved the performance conditions of the FY23 bonus award and share awards to ensure they are sufficiently stretching
- Approved the FY23 base salary of the Executive Directors and senior management to ensure they align with the workforce remuneration
- Kept up to date on the market practice and proxy advisers' and shareholders' views on remuneration matters

Role of the Committee

- Setting the remuneration policy relating to the Executive Directors and the Non-Executive Directors, for approval by shareholders;
- Setting the remuneration of the Chair, the Executive Directors and senior management;
- Reviewing and aligning workforce remuneration and related policies;
- Approving the design of, and determining targets for, any annual performance-based 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;
- Appointing remuneration consultants and setting their terms of reference; and
- Determine the policy for pension arrangements for the Executive Directors and senior management.

The Committee's Terms of Reference were updated during the year. Further details of the Committee's responsibilities can be found on the Company's website.

Dame Heather Rabbatts
Chair of the Remuneration Committee

Dear shareholder

On behalf of the Board, I am pleased to present the annual statement for the 2022 (FY22) financial year.

The Directors' remuneration report for FY22 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 2022 financial year and to be paid in the 2023 financial year (FY23); and.
– A summary of the key elements of the remuneration policy, which was approved by 97.81% of our shareholders and subsequently adopted at the 2020 Annual General Meeting.

I am grateful for the opportunity to meet with many shareholders over the course of the last year to discuss our executive remuneration. Whilst we received support from a significant number of our shareholders, including our largest, on the changes made to executive pay, we are acutely aware of the sensitivities with this issue and shareholder feedback will continue to form a key part of the Committee's considerations.

In line with the commitments made to shareholders during the consultation, the deferred element of the FY22 net bonus payable to the Chief Executive is increased to 50% and no pay increase is made to the Chief Executive for FY23.

As the Committee commences its review of the Remuneration Policy, we will be liaising with shareholders again in due course and details of the proposed policy will be set out in the FY23 report.

The Remuneration Committee reviews executive pay in the context of the Group's results and pay across the business and details of the pay increase for the Chief Financial Officer is set out below. As always, for the executives, the Committee remains committed to the principle of pay for performance.

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's FY22 results reflect a strong operational performance despite inflationary pressures:

– Delivered both an adjusted operating profit of £120.5m and an increased margin of 3.7%;
– Net cash position of £2.9m at the end of the financial year;
– An increase in the order book of 27% to £9.8bn; and
– Delivering against its medium-term value creation plan.

Shareholder experience

Our share price has reduced during the second half of FY22 which we believe is due to wider economic concerns and world events and doesn't reflect the underlying performance of the business. The performance of the Group does demonstrate our strengthened financial position and significantly enhanced resilience. Whilst no dividend will be paid for this year, the FY22 financial performance is an important step towards enabling dividends to resume.

Employee experience

Our business only operates and grows through the hard work and dedication of our c.10,000 employees. During FY22 we introduced a range of industry-leading policies to support our employees through life-events including increased pay for maternity, paternity and shared parental leave, paid leave for pregnancy loss, and the introduction of menopause support and guidance. Further enhancements are being introduced in early FY23 to sick pay, life assurance and annual leave to ensure our policies are competitive as well as fair and equitable.

Support for employee wellbeing is always an important area and has been magnified by cost of living pressures. A number of financial and wellbeing measures have been introduced to support employees including in the most underserved and under-supported areas of healthcare, such as menopause, fertility, pregnancy, new parents, and men's health. In addition, our employee benefits offering has been enhanced to provide more support to employees including easy access to financial support products.

Following the introduction of the Real Living Wage to all of the Group's direct employees in FY21, the Real Living Wage Accreditation was achieved in FY22. From the start of FY23, the Real Living Wage is being extended to Kier's contingent workers, in line with the plan developed.

As part of driving forward our sustainability objectives, the Kier Green Car Scheme launched in FY22 and enables all employees to lease an ultra-low emission vehicle through a tax efficient salary sacrifice scheme.

Everyone at Kier has a part to play in building an inclusive workplace. Our employee networks are a safe place for people to share their experiences and come together to drive Diversity & Inclusion across the business. The networks are open to all employees, fostering a culture of allyship. All our networks have executive sponsorship meaning that networks are empowered to drive Diversity & Inclusion at Kier.

FY22 outcomes

Annual bonus

The annual bonus targets were adjusted operating profit (40%), the Group's free cash flow performance (40%), safety targets (10%) and personal objectives (10%). The personal objectives related to driving business simplification and enabling future growth through IT improvements, employee engagement and the wind down of completed overseas projects. The Committee has reviewed performance against the targets during year.

When assessing outcome against the adjusted operating profit target, the Committee took into consideration a number of factors, including those set out in the section above. The adjusted operating profit target had been set at £115.1m which compared with actual achievement of £120.5m. The Committee considered this a good level of performance taking into account the economic issues in the second half of FY22 and 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.

When considering the outcome of the free cash flow target, the Committee took into account the achievement of £108.2m against the target of £103.2m. The Committee therefore agreed that it would be appropriate to award a payment of 72% 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. It was noted that there had been an increase in incidents in specific areas of the business. All safety incidents recorded have some level of human factor attributed and the Group is undertaking a cultural programme to review the human focused approach to improve safety performance. As a business, safety standards remained good and significantly better than the HSE benchmark, but of course this is an area that the Board wants to see continuous improvement.

The Committee also reviewed the extent to which the Executive Directors had satisfied their personal objectives (see page 121 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 and Chief Financial Officer was 78.8% of the maximum opportunity.

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. For this bonus payment, one-half of net bonus payment received by the Chief Executive and one-third for the Chief Financial Officer will be in Kier shares with legal ownership deferred for three years.

Vesting of LTIP award

The targets for the LTIP award made in 2019 were Adjusted Earnings Per Share ('EPS') (50%), Total Shareholder Return ('TSR') (25%) and Net Debt:EBITDA (25%). Details of the performances measures are on page 122.

The EPS target had previously been adjusted to take account of corporate transactions (see the 2021 Annual Report page 105). The FY22 EPS achieved was 16.8p and the Committee therefore agreed that this performance measure target element had been met in full.

The TSR element which measured shareholder return against a comparator group had not achieved the minimum vesting level and no payment was due in respect of this element.

The Committee indicated in its FY21 report that the performance of the Net Debt:EBITDA element would be assessed by the Committee at the end of the performance period to ensure the outcome is fair and robust, given the corporate transactions and management actions on debt that took place during the performance period.

When considering the vesting outcome for this element, the Committee recognised that the target was set at the start of the implementation of a new strategy, shortly after the appointment of the Chief Executive and Chief Financial Officer. The Executive Directors led on the successful sale of Kier Living and the capital raise in 2021. In addition, significant improvements were made to the Group's financial position over the performance period, including: reduced bond usage; paying down the supply chain finance facility (Kier Early Payment Scheme); Group-wide cost savings; and reducing leverage, with average net debt down to £216m. The Committee also noted the significant order book growth of £2.1bn.

The Committee carefully considered and assessed the overall reduction in indebtedness, improvement in metrics such as supplier payment days and strength of underlying cash generation over the three-year performance period, and felt it was appropriate to use their judgement to vest this element in full.

The LTIP award will vest at 75% of maximum opportunity. The net shares vesting (after tax) will be subject to a two-year holding period before being made available to the Executive Directors.

Looking forward – FY23

Remuneration across the Group

In determining the FY23 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, on average, increases of up to 4% will be awarded across the majority of the Group with effect from 1 October 2022;
- The other elements of remuneration payable to the workforce for example:
  - The bonus opportunities to be made available to certain levels of employee in FY23;
  - Vouchers given to all employees in the Group at Christmas 2021 as a gesture of thanks for their continued commitment;
  - Discretionary recognition payments made to over 3,600 employees during 2021; and
  - The Real Living Wage increases made to over 700 employees in April 2022 and the inclusion of contingent workers from FY23.

Base salaries

As disclosed in my FY21 report, no increase in the Chief Executive's salary would be made for FY23.

The Committee decided that, in line with the average increase in base salaries across the workforce, the base salary of the Chief Financial Officer will increase by 4% to £524,035 (FY22: £503,880) with effect from 1 October 2022.

Annual bonus

The maximum bonus opportunity for each of the Chief Executive and the Chief Financial Officer will remain 125% of base salary. The FY23 bonus targets will 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 the approved policy. The actual measures, targets, weightings, and performance against them will be disclosed in the FY23 Annual Report.

LTIP awards

As we advised during the shareholder consultation, for the 2023 financial year, the Chief Executive and the Chief Financial Officer will be granted LTIP awards of 175% of base salary. This is reduced from the 200% of base salary awards made for the 2022 financial year.

The Committee considered that a 175% award for both the Chief Executive and for the Chief Financial Officer was justified to incentivise the achievement of the medium-term targets of the Group and to continue to align with the interests of shareholders. The performance conditions will relate to EPS, TSR outperformance and the Group's free cash flow over the performance period.

The Committee considered the introduction of ESG targets for the FY23 award but determined it was prudent for the introduction of new performance measures to form part of the Policy review, which will consider the most appropriate targets and their respective weightings for the FY24 award onwards.

Pension contributions

The pension contributions/cash allowance payable by the Company to each of the Chief Executive and the Chief Financial Officer in FY23 will remain at 7.5% of their respective base salaries, which is aligned with Company pension contributions made available to the wider workforce.

Inflationary support

We know that the current cost of living crisis is challenging for our people and against a backdrop of high inflation, we have considered what we can do to provide additional support for their financial wellbeing. We have reviewed our current benefits package and in addition to the great range of benefits already offered, in particular, the shopping discounts that are already available, we are making further improvements to the financial wellbeing benefits offered. Additionally, we have also decided to award c.875 employees with an inflationary support payment of £300, which will be made in November. This payment is in addition to the pay increases I have already mentioned and are targeted to provide financial support to those who we believe are most challenged with the high increases in food, energy and other household bills.

Dame Heather Rabbatts
Chair of the Remuneration Committee

Remuneration at a glance

Approach to remuneration at Kier

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:

1\.
Fixed element:
Comprises base salary, taxable benefits (private health insurance and a company car or car allowance) and pension contributions

2\.
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 (two-thirds), which are subject to clawback, and shares (one-third), which are deferred for three years

3\.
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

Strategic alignment of remuneration

For the Executive Directors' and senior management, a significant part of their total remuneration opportunity should be performance related, and those performance targets should be directly connected to the delivery of the Group's strategy and long-term returns. The following table illustrates how that is achieved:

Strategic actions

Disciplined growth	Consistent delivery	Generate cash

Progress against actions

£120.5m adjusted operating profit	£108.2m free cash flow

How strategy links to remuneration

Annual bonus targets

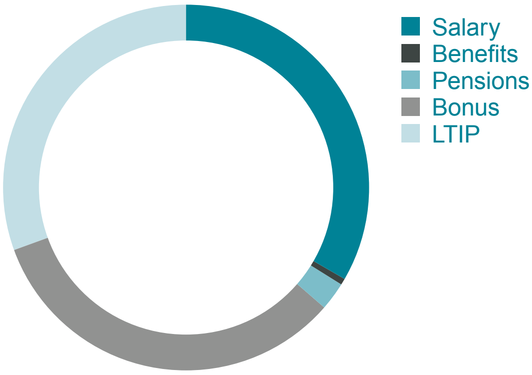
40% Group adjusted operating profit	40% Group free cash flow	10% Health & safety	10% Personal objectives

LTIP – Performance conditions

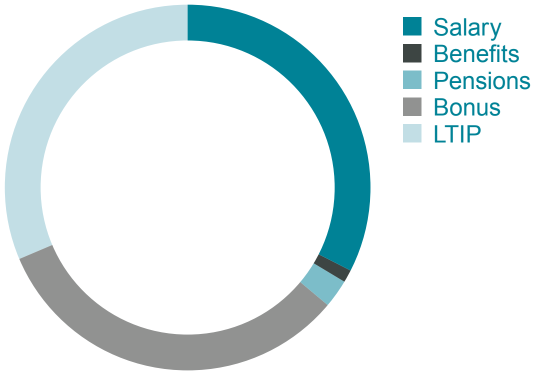
50% Group adjusted earnings per share	25% Group free cash flow	25% Total shareholder return

Summary of the Executive Directors' FY22 remuneration outcome

Andrew Davies



Simon Kesterton



Summary of the Executive Directors' FY23 remuneration

Element	Chief Executive	Chief Financial Officer
Base salary	£750,000	£524,035[1]
Pension	7.5% of salary	
Benefits	Private health insurance and a company car or car allowance	
Bonus	125% of salary	
Bonus targets[2]	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 Shares	One-third of any net bonus annual payment to be satisfied by an allocation of shares (legal ownership deferred for three years)	
LTIP	175% of salary	
LTIP performance conditions[2]	Awards will be subject to the Group's performance over a three-year period to 30 June 2025: 50% Adjusted Earnings Per Share 25% Total Shareholder Return 25% Free Cash Flow	
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 October 2022.
2 The actual bonus targets (and performance against them) and details of the LTIP awards will be disclosed in the 2023 Annual Report.

Annual report on remuneration

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).

Introduction

This section of the report sets out the annual report on remuneration for the 2022 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 121, the incentive awards made during the 2022 financial year referred to on page 122, the payments for loss of office referred to on page 123, the payments to past Directors referred to on page 123 and the statement of Directors' shareholdings and share interests set out on page 123.

Directors' remuneration for the 2022 financial year

The following table provides details of the Directors' remuneration for the 2022 financial year, together with their remuneration for the 2021 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[2] (£000)		Total fixed pay (£000)		Bonus (£000)		LTIP Vesting[3] (£000)		Share Schemes (£000)		Total variable pay (£000)		Total (£000)	
	2022	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021	**2022**	2021
Executive Directors																		
Andrew Davies	**750**	595	**15**	14	**56**	45	**821**	654	**739**	669	**685**	–	**–**	–	**1,424**	669	**2,245**	1,323
Simon Kesterton	**499**	482	**15**	14	**37**	36	**551**	532	**496**	606	**478**	–	**–**	–	**974**	606	**1,525**	1,138
Non-Executive Directors																		
Alison Atkinson	**67**	34	**–**	–	**–**	–	**67**	34	**–**	–	**–**	–	**–**	–	**–**		**67**	34
Justin Atkinson	**67**	62	**–**	–	**–**	–	**67**	62	**–**	–	**–**	–	**–**	–	**–**		**67**	62
Matthew Lester	**235**	235	**–**	–	**–**	–	**235**	235	**–**	–	**–**	–	**–**	–	**–**		**235**	235
Heather Rabbatts	**67**	62	**–**	–	**–**	–	**67**	62	**–**	–	**–**	–	**–**	–	**–**		**67**	62
Clive Watson	**67**	62	**–**	–	**–**	–	**67**	62	**–**	–	**–**	–	**–**	–	**–**		**67**	62
Total	**1,752**	1,532	**30**	28	**93**	81	**1,875**	1,641	**1,235**	1,275	**1,163**	–	**–**	–	**2,398**	1,275	**4,273**	2,916

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 The award granted in 2019 will vest at 75%. The value is calculated using the Company's average share price for the three-month period ended 30 June 2022 of £0.76.

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 2022 financial year were:

Director	Employer pension contribution	Pension contribution	Cash allowance	Total
Andrew Davies	7.5%	–	£56,250	£56,250
Simon Kesterton	7.5%	–	£37,428	£37,428

Annual bonus – 2022 financial year

The bonus payments to the Executive Directors in respect of the 2022 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	40%	£105m	£115.1m	£120.4m	£120.5m	100%
Group year-end free cash flow	40%	£84m	£103.2m	£114.4m	£108.2m	72%

Non-financial performance (aggregate weighting: 20%)

Health and safety (maximum opportunity: 10%)

Target	Opportunity	Lower threshold	Upper threshold	Actual performance	Actual performance as a % of opportunity
Reduction in the Group's Accident Incidence Rate	5%	95	100	115	Nil
Reduction in the Group's All Accident Incidence Rate	5%	290	310	320	Nil

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	Drive business simplification and enable future growth through IT improvements Successful wind down of completed projects in the international business Deliver an employee engagement index of no less than 55%	Significant tangible IT service improvements and cost savings achieved through Group-wide initiative Projects wind downs successfully completed in international business including significant cash collection Through surveys that focused on employee wellbeing, early careers development and employee sentiment of working at Kier. The employee engagement index for the surveys were: November 2021 – 60%, March 2022 – 68% and June 2022 – 63%.	100%

Total outcome

Director	Bonus payable as % of opportunity	Opportunity as % of salary	Bonus payable as % of salary	Total bonus
Andrew Davies	78.8%	125%	98.5%	£738,750
Simon Kesterton	78.8%	125%	98.5%	£496,322

50% of the total net bonus payment to the Chief Executive and 33% of the total net bonus payment to the Chief Financial Officer will be satisfied by an allocation of shares with legal ownership deferred for three years.

LTIP awards – performance period ended 30 June 2022

The three-year performance period of the LTIP awards granted in 2019 ended on 30 June 2022. Performance against the performance conditions of those awards was as follows:

Performance Conditions	Weighting	Targets	Actual Performance	Level of Vesting[1]
Adjusted Earnings Per Share[2]	50%	0% vesting if EPS is less than 9.8p 25% vesting if EPS is equal to 9.8p 100% vesting if EPS is 14.8p Straight-line vesting between these points	16.8p	100%
Total Shareholder Return[3]	25%	0% vesting for performance below median constituent of the comparator group 25% vesting for performance in line with median constituent of the comparator group 100% vesting for outperformance of the median constituent of the comparator group by 10% or more Straight-line vesting between these points	Below Threshold	0%
Net Debt:EBITDA[4]	25%	0% vesting for net debt:EBITDA greater than 1.5 25% vesting if net debt:EBITDA is equal to 1.5 100% vesting if net debt:EBITDA is 0.5 or lower Straight-line vesting between these points	See note 4	100%
Total				75%

1 Expressed as a percentage of maximum opportunity.
2 Previous adjustments to this target set out on page 105 of the 2021 Annual Report.
3 Against a comparator group of Balfour Beatty, Costain, Galliford Try, Henry Boot, Mears, MITIE, MJ Gleeson, Morgan Sindall, Renew Holdings and SEGRO.
4 The Committee determined the level of vesting for this performance condition as set out on page 116.

The vesting of these awards will result in the allocation of the following number of shares:

Director	Maximum number of shares	Number of shares vesting[1,2]	Value[3]
Andrew Davies	1,201,302	900,976	£684,742
Simon Kesterton	839,145	629,358	£478,312

1 The vesting date is 28 October 2022.
2 The net number of vesting shares (after payment of tax) are subject to a two-year holding period.
3 The value of an award is calculated by multiplying the number of vested shares by the Group's average share price for the three-month period ended 30 June 2022 of £0.76. The values are stated before deductions for income tax and national insurance contributions.

Incentive awards made during the 2022 financial year

The following incentive awards were made to those persons who, during the 2022 financial year, served as a Director:

Award[1]	Basis of award	Director	Face Value[2]	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 2022	Andrew Davies	£1,499,999	25% of face value	1 July 2021 – 30 June 2024	28 October 2024	n/a	Awards are based 50% on adjusted EPS for financial year ending 30 June 2024, 25% on TSR performance against a comparator group and 25% on adjusted Free Cash Flow. See table below for further detail
		Simon Kesterton	£1,007,759					
Deferred Shares	1/3 of the net bonus for the year ended 30 June 2021	Andrew Davies	£118,256	n/a	n/a	29 October 2024	n/a	Continuous service condition (subject to malus)
		Simon Kesterton	£106,993					

1 The LTIP awards made to Andrew Davies and Simon Kesterton were 200% 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 27 October 2021 of 108.4p. For the deferred share awards, 'face value' is calculated using the market price of a share in the capital of the Company on 28 October 2021 of 108.4p.

No persons who, during the 2022 financial year, served as a Director received awards under the Share Incentive Plan.

The performance conditions (and respective weightings) and targets for the LTIP awards which were granted during the 2022 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 (28 October 2024).

Performance condition	Weighting	Targets
Adjusted Earnings Per Share[1]	50%	0% vesting for below 17.7p 25% vesting for 17.7p 100% vesting for 20.7p Straight-line vesting between these points
TSR outperformance[2]	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
Adjusted Free Cash Flow[3]	25%	0% vesting for below 68.0% 25% vesting for 68.0% 100% vesting for 95.0% Straight-line vesting between these point

1 For the financial year ending 30 June 2024.
2 The comparator group comprises FTSE 250 Index excluding investment trusts.
3 Target measured by reference to the average of the Group's adjusted Free Cash Flow for each of the 2022, 2023 and 2024 financial years.

Payments for loss of office

No payments were made for loss of office during the 2022 financial year.

Payments to past Directors

No payments were made to past Directors during the 2022 financial year.

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 2022, 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 2022 financial year, served as a Director:

	Shares held				Options held				
	Owned outright or vested[1]	Vested but subject to a holding period[2]	Unvested and subject to performance conditions[3]	Unvested and subject to continued employment[4]	Vested but not exercised	Unvested and subject to continued employment[5]	Shareholding guideline (% of salary)	Current shareholding (% of salary)[6]	Guideline met?
Alison Atkinson	–	–	–	–	–	–	n/a	n/a	n/a
Justin Atkinson	46,096	–	–	–	–	–	n/a	n/a	n/a
Andrew Davies	159,275	109,092	3,739,881	–	–	5,625	200	24.3%	No
Simon Kesterton	159,024	98,702	2,709,162	–	–	5,625	200	34.7%	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

1 Comprising shares held legally or beneficially by the relevant Director or their connected persons.
2 Comprising deferred shares allocated to the relevant Director in connection with annual bonuses. See 'Deferred shares' below.
3 Comprising unvested LTIP awards.
4 Comprising matching shares purchased after 30 June 2019 (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 124.
5 Comprising options under the SAYE schemes. See 'Save As You Earn schemes' on page 124.
6 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 2022 of £0.679 and (iii) the gross base salaries for the year ended 30 June 2022.

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 2022.

Deferred shares

Those persons who, during the 2022 financial year, served as a Director beneficially owned, at 30 June 2022, shares in the capital of the Company as a result of awards of deferred shares.

Director	2020 award	2021 award	2022 award	Cumulative Total 30 June 2022
Andrew Davies	–	–	109,092	109,092
Simon Kesterton	–	–	98,702	98,702
Date of award	n/a	n/a	29 October 2021	–
Share price used for award[1]	n/a	n/a	108.4 pence	–
End of holding period	n/a	n/a	29 October 2024	–

1 The market price of a share from the business day immediately prior to the date of the award.

LTIP awards

Those persons who, during the year ended 30 June 2022, served as a Director held LTIP awards over the following maximum numbers of shares in the capital of the Company at 30 June 2022:

Director	2020 award[1,3]	2021 award[1,4]	2022 award	Cumulative total 30 June 2021[1]	Cumulative total 30 June 2022
Andrew Davies	1,201,302	1,154,816	1,383,763	2,356,118	3,739,881
Simon Kesterton	839,145	940,350	929,667	1,779,495	2,709,162
Date of award	28 October 2019	18 December 2020	28 October 2021	–	–
Share price used for award[2]	115.8 pence	78.3 pence	108.4 pence	–	–
End of performance period	30 June 2022	30 June 2023	30 June 2024	–	–

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 See 'LTIP Awards – Performance Period ended 30 June 2022' on page 122 for vesting outcome.
4 Net Debt:EBITDA performance condition to be assessed for actual performance relative to original target at the end of the performance period. See page 99 of the 2021 Annual Report.

The performance conditions for the awards granted during the 2022 financial year are set out on page 123.

Share Incentive Plan

No persons who, during the 2022 financial year, served as a Director had options under the Share Incentive Plan at 30 June 2022.

Save As You Earn scheme

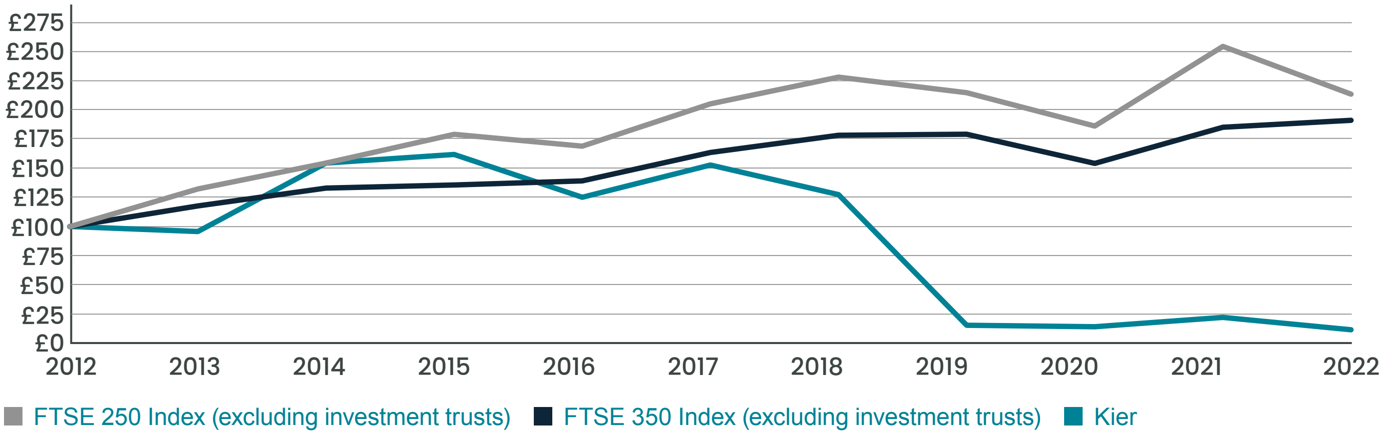
Those persons who, during the 2022 financial year, served as a Director had options under the Kier Group plc 2016 Sharesave Scheme at 30 June 2022:

Director	Date Granted	Maximum number of shares receivable at 1 July 2021	Awarded during the year	Exercised during the year	Maximum number of shares receivable at 30 June 2022[1]	Exercise price	Exercise period
Andrew Davies	29 October 2021	–	5,625	–	5,625	£0.96	1 December 2024 – 31 May 2025
Simon Kesterton	29 October 2021	–	5,625	–	5,625	£0.96	1 December 2024 – 31 May 2025

1 Assumes that each Director continues to save at the current rate until the commencement of the exercise period.

Total shareholder return

The graph below shows the value, at 30 June 2022, of £100 invested in shares in the capital of the Company on 30 June 2012, 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 123) 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	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%	–
	2022	£2,245	78.8%	75%

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.

Workforce Remuneration

All Employees		Executive Directors
Pay review boundaries approved by Remuneration Committee	**Salary**	Pay rise is normally consistent with all-employee increases
750 employees eligible for a bonus Maximum opportunity: 80% of base salary Group targets: Profit, Cash Flow, Health & Safety	**Bonus**	Maximum opportunity: 125% of base salary Group targets: Profit, Cash Flow, Health & Safety, personal objectives
Executive Committee: 25% of net bonus deferred for 3 years	**Deferred Bonus shares**	33% of net bonus deferred for 3 years
Awarded to leadership and strategic managers Maximum award: 100% of base salary 3-year performance period Targets: Earnings Per Share, Shareholder Return, Cash Flow	**Long Term Incentive Plan**	Maximum award: 200% of base salary 3-year performance period, 2-year holding period Targets: Earnings Per Share, Shareholder Return, Cash Flow
7.5% matched employer pension contributions for majority of employees	**Pension**	7.5% employer pension contributions or cash allowance
Maximum contributions: £6,000 pa. 3-year saving period	**Sharesave**	Maximum contributions: £6,000 pa. 3-year saving period
Maximum contributions: £1,800 pa. Group funded matching shares provided on 1:2 basis	**Share Incentive Plan**	Maximum contributions: £1,800 pa. Group funded matching shares provided on 1:2 basis

Employee benefits

Providing employees with a range of employee benefits and support is critical to the Group attracting and retaining a diverse and motivated workforce. New benefits and policies introduced during the financial year include:

Family Friendly Policies
We have extended both our maternity and paternity leave policies. Employees now need to work for Kier for 26 weeks to be eligible for the enhanced leave (halved from 52 weeks) and we have increased maternity leave from 20 weeks at full pay to 26 weeks at full pay, with paternity leave increasing from two weeks to eight weeks at full pay and flexibility on when the time off can be taken.

We have also introduced a pregnancy loss policy, which outlines that all employees, regardless of length of service and whether it is they, their partner or surrogate that directly experiences the loss, is entitled to two weeks' paid leave in case of a pregnancy loss. It also outlines accommodations that employees can request on their return to work.

Kier's menopause guidance also launched, supporting conversations between those experiencing menopause symptoms and their colleagues and outlining reasonable accommodations.

Green Car Scheme
As part of driving forward the Group's sustainability objectives, the Kier Green Car Scheme was launched in 2021. This is open to all employees and enables participants to get a brand new ultra-low emission vehicle using a salary sacrifice scheme. It provides employees with a high-quality benefit of a vehicle with fully comprehensive business insurance, servicing, maintenance, tyres, road side assistance and no deposit to pay, all for a fixed monthly amount. As it is a salary sacrifice scheme it offers significant tax savings to employees.

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 2022 financial year, this section of the employee population (comprising approximately 5,900 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[4,5]	
	2022	2021	**2022**	2021	**2022**	2021
Executive Directors						
Andrew Davies	**26.1%**	6.7%	**7.1%**	7.7%	**10.5%**	n/a
Simon Kesterton	**3.5%**	8.2%	**7.1%**	7.7%	**(18.2)%**	n/a
Chairman						
Matthew Lester	**0%**	4.9%	**n/a**	n/a	**n/a**	n/a
Non-Executive Directors						
Alison Atkinson	**8.1%**	–%	**n/a**	n/a	**n/a**	n/a
Justin Atkinson	**8.1%**	6.9%	**n/a**	n/a	**n/a**	n/a
Heather Rabbatts	**8.1%**	6.9%	**n/a**	n/a	**n/a**	n/a
Clive Watson	**8.1%**	6.9%	**n/a**	n/a	**n/a**	n/a
Other employees	**6.56%**	4.73%	**(6.6)%**	(0.57)%	**8.0%**	n/a

1 Base salary/fee and taxable benefits as shown in the table on page 120 and the 2021 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.
5 'Other employees' percentage change calculated for employees subject to Group bonus targets.

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 2022, using the information set out in the single total figure table on page 120, to the total remuneration of a lower quartile, median and upper quartile employee.

	25th percentile pay ratio (Chief Executive: UK employees)	Median pay ratio (Chief Executive: UK employees)	75th percentile (Chief Executive: UK employees)
2022	89:1	61:1	36:1
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 2022 financial year and those individuals whose remuneration in the 2022 financial year was at the median, 25th percentile and 75th percentile amongst UK-based employees are as follows:

	Chief Executive	25th percentile	Median	75th percentile
Salary	£750,000	£23,515	£35,398	£53,725
Total remuneration	£2,244,261	£25,090	£36,814	£62,393

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 2022, 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 Chief Executive pay ratio was due to a combination of increase in salary which had been subject to comprehensive shareholder consultation and both the annual bonus payment and LTIP vesting for the 2022 financial year. It considers that the median pay ratio for 2022 disclosed in the above table is consistent with the pay, reward and the progression opportunities available to UK-based employees across the business.

Relative importance of spend on pay

The graph below shows the percentage changes in the total employee remuneration and adjusted profit before tax between the 2021 and 2022 financial years:

Total employee remuneration (£m)

Adjusted profit before tax (£m)

Employee remuneration is remuneration paid to or receivable by all employees of the Group (as stated in note 7 to the 2022 consolidated financial statements on page 172). The adjusted profit before tax as stated as supplementary information in the 2022 consolidated income statement on page 148. No dividends were paid during the financial year.

Executive Directors' external appointment

Andrew Davies is a non-executive director of Chemring plc and is entitled to retain those fees.

Implementation of the Remuneration policy in 2023

Executive Directors' base salary

The base salaries of the Executive Directors for the 2023 financial year are as follows:

Director	From 1 October 2021	From 1 October 2022	Percentage increase
Andrew Davies	£750,000	£750,000	0%
Simon Kesterton	£503,880	£524,035	4%

Annual bonus

In the 2023 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 adjusted operating profit, free cash flow, health, safety and wellbeing and personal objectives. The actual bonus targets and performance against them will be disclosed in the 2023 Annual Report. One-third of net bonus payment for the Chief Executive and Chief Financial Officer 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 2023 financial year, the Chief Executive and the Chief Financial Officer will be granted an LTIP award of 175% of base salary.

The performance conditions for these awards will relate to Adjusted EPS (50%), TSR performance (25%) and Adjusted Free Cash Flow (25%) over the three-year period ending 30 June 2025. The actual performance conditions will be disclosed in the 2023 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 2023 financial year are:

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 (2022: £13,900).

Non-Executive Directors' fees

There will be no increase in the fees payable to the Non-Executive Directors for the 2023 financial year. The total fees payable to the Non-Executive Directors with effect from 1 October 2022 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.

How the Remuneration policy aligns with the 2018 Corporate Governance Code

The Committee has determined the policy in line with the Code as set out below:

Principle	Committee Approach
Clarity Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	The Group's remuneration arrangements are clearly communicated to shareholders and the workforce, for example, through this Directors' remuneration report, the engagement process with shareholders and an Employee Benefit Forum being introduced for FY23.
Simplicity Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	The remuneration structures are straightforward with a small number of performance measures which are tied to the Group's strategy.
Risk Remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	The reputational and other risks that may result from excessive rewards is clearly understood. The Committee has the discretion to adjust annual bonus payments and vesting levels of LTIPs to address this issue. Wide ranging malus and clawback provisions apply to the incentives.
Predictability The range of possible values of rewards to individual directors and any other limits or discretions should be identified and explained at the time of approving the policy.	The Committee maintains caps on the maximum incentive opportunities as reflected in the Group's remuneration policy.
Proportionality The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	Discretion can be applied in relation to variable remuneration to ensure that rewards reflect the long-term performance of the Group; and the performance measurements attached to awards are carefully chosen.
Alignment to culture Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	The Committee reviews the incentive schemes to ensure alignment with the strategy and medium-term value creation.

Annual Evaluation

2022 evaluation

The Committee made good progress on the recommendations and agreed areas of focus from last year's externally facilitated review and will continue to ensure sufficient time is scheduled into the agenda pre and post-meeting for planning and actions.

This year, the Committee carried out an internally facilitated review of its effectiveness and the output was discussed by the Committee. This concluded that the Committee is operating effectively. The review identified areas to focus this financial year including enhancing quality of papers to assist the Committee in monitoring performance targets.

Advisers

During the 2022 financial year, Willis Towers Watson ('WTW') acted as its independent adviser. During the year, fees paid to WTW for advice to the Committee were £43,400 (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 Chief People Officer (Helen Redfern) and the Company Secretary.

Shareholder voting

The Directors' remuneration report was subject to shareholder votes at the 2021 AGM. The results of the vote on the resolution were:

Directors' remuneration report

Votes for[1]	Percentage votes for	Votes against[2]	Percentage votes against	Votes withheld
182,346,972	73.93%	64,290,024	26.07%	39,592,985

1 Includes those votes for which discretion was given to the Chairman.
2 Does not include votes withheld.

The Committee consulted with the Company's largest shareholders prior to the AGM. Notwithstanding that a significant number of shareholders supported the resolution, the Committee recognised that not all shareholders agreed with the decisions taken and since the AGM result, re-engaged with the largest shareholders to further understand the reasons behind the voting result. The Committee will take into account all feedback received in future decision-making. See page 115 for more information.

The Directors' Remuneration Policy was subject to shareholder vote at the 2020 AGM. The results of the votes on the resolution were:

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.

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 2023 financial year. The full policy is set out on pages 105–112 (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 the key elements 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.	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 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.	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.

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.	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.

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. 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.

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).

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.

Directors' report

Introduction
This Directors' report and the Strategic report on pages 1–91 (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 of Directors' responsibilities	92–113 (inclusive) 139
Directors	Board of Directors Directors' Remuneration report – Directors' shareholdings and share interests	94–95 (inclusive) 123–124 (inclusive)
Employee engagement	Employee wellbeing & engagement Our key stakeholders	60–64 (inclusive) 33
Employment of disabled persons	Diversity & inclusion	56
Engagement with suppliers, customers and others	Our key stakeholders	32–35 (inclusive)
Financial instruments	Consolidated financial statements – note 29	204–208 (inclusive)
Going concern	Financial review	88
Greenhouse gas emissions	Building for a Sustainable World	46–50 (inclusive)
Important events since the end of the financial year	n/a	n/a
Likely future developments	Chief Executive's review	8–13 (inclusive)
Results and dividends	Financial review	84–88 (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	137
(14) Agreement with controlling shareholders	n/a

Political donations
The Company made no political donations during the year (FY21: 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 2022, the issued share capital of the Company consisted of 446,241,682 ordinary shares of 1 pence each. During the 2022 financial year, the Company issued 75,983 ordinary shares of 1 pence in connection with the exercise of options under the Kier Group plc Sharesave Scheme 2016 (the 'Scheme'). Between 1 July 2022 and 13 September 2022, 19,950 ordinary shares of 1 pence each were issued in connection with the exercise of options under the Scheme. Further details of changes to the ordinary shares issued and of options and awards granted during the year are set out in notes 26 and 27 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 information below has been provided under requests made to shareholders under section 793 of the Companies Act 2006.

As such this information is regarded by the Company as providing an up-to-date representation of our major shareholders' interests.

Shareholder	Interest
Schroder Investment Management	10.54%
M&G Investments	9.85%
abrdn (Standard Life)	7.27%
JO Hambro Capital Management	6.46%
Hargreaves Lansdown Asset Management	4.77%
Aviva Investors	3.81%
BMO Global Asset Management	3.07%

In addition, we have included below, the interests in the share capital of the Company which have been notified to the Company as at 13 September 2022 under Rule 5.1 of the Disclosure Guidance and Transparency Rules. The information in the 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.

Shareholder[1]	Interest[2]
M&G Plc	9.93%
abrdn plc	8.28%
Pendal Group Limited	5.04%
Brewin Dolphin Limited	5.01%
Charles Stanley Group plc	5.00%
BlackRock, Inc	Below 5%
Rathbone Investment Management Limited	4.93%
Jupiter Fund Management PLC	4.78%
Aviva plc	4.77%
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 13 September 2022. 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 2022, JTC Employer Solutions Trustee Limited ('JTC'), as the trustee of the Kier Group 1999 Employee Benefit Trust, owned 7,389,626 shares (1.66% 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. JTC does not exercise any voting rights in respect of these shares and waives any dividends payable. In addition, as at 30 June 2022, JTC held 435,728 shares (0.10% of the Company's issued share capital at that date) in a nominee capacity on behalf of senior management in connection with the Company's deferred bonus arrangements. JTC votes to the extent instructed by the holders of the beneficial interests in these shares (the 'Beneficial Holders') and distributes any dividends received to the Beneficial Holders.

As at 30 June 2022, Equiniti Limited ('Equiniti') held 6,513,655 shares (1.46% of the Company's issued share capital at that date) on trust for the benefit of members of the SIP. Equiniti does not exercise any voting rights in respect of the shares held by the trust (although beneficiaries may authorise Equiniti to vote in accordance with their instructions). Equiniti distributes dividends received to beneficiaries under the trust.

As at 30 June 2022, 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, 146,359 and 19,045 shares (in aggregate, 0.04% 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 2022 AGM. Further information about the Directors' skills and experience can be found on pages 94 and 95.

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 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.

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 19 November 2021 to allot shares in the Company (i) up to an aggregate nominal amount of £1,487,258 and (ii) up to an aggregate nominal amount of £2,974,517 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 £223,088 and (ii) for the purposes of financing an acquisition or other capital investment up to a further nominal amount of £223,088.

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 2022 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 32 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 2023. A resolution relating to this re-appointment will be proposed at the forthcoming AGM.

AGM

The Company's 2022 AGM is scheduled to be held on 17 November 2022. 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

14 September 2022

2nd Floor, Optimum House,
Clippers Quay, Salford M50 3XP

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 the 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 profit 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 profit of the Company; and
– the Annual 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

14 September 2022

Independent auditors' report to the members of Kier Group plc

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 2022 and of the Group's profit and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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 2022 (the 'Annual Report'), which comprise: the Consolidated and Company balance sheets as at 30 June 2022; the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of changes in equity and the Consolidated statement of cash flows 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').

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 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 99% (2021: 98%) of Group revenues.

Key audit matters

- Contract accounting (Group)
- Presentation of the Group's financial performance (Group)
- Impairment of goodwill (Group)
- Carrying value of investments in Group companies and recoverability of amounts owed by subsidiaries (parent)

Materiality

- Overall Group materiality: £11.0m based on 0.35% of total revenue (2021: £7.7m based on a three-year average of 5% of statutory results before tax from continuing operations).
- Overall Company materiality: £9.9m (2021: £6.9m) based on 1% of total assets limited by the application of component materiality.
- Performance materiality: £8.3m (2021: £5.8m) (Group) and £7.4m (2021: £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.

Carrying value of property development inventory and COVID-19, which were key audit matters last year, are no longer included. We have reassessed and reduced our risk assessment of the recoverability of property development inventory on the basis of improved performance of the sectors in which Kier Property primarily operates. We reviewed and agreed with management's assessment that the likely impact of COVID-19 on the Group was now considered to be low and as a result have not included this as a key audit matter in our current year audit 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 108 (Risk Management and Audit Committee report) and page 162 (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. Profits or losses on contracts is a significant risk for our audit because of the inherent uncertainty 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 (e.g. for any onerous contracts) recognised to date and, therefore, the current financial year. The Group operates in an industry in which contracts allow a route to recovery that may become 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, for example, 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 revenue 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), suppliers or insurance recoveries are recognised only when they are determined to be 'virtually certain'.	We focused our work on those contracts with the greatest estimation uncertainty over the final contract values and therefore profit or loss 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 not reversing; – We also challenged those assumptions in respect of estimated recoveries from subcontractors, designers, and insurers included in the forecasts, to determine whether these could be considered 'virtually certain' of recoverability; – We attended contract review meetings virtually or via a conference call, 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 performed a margin analysis on the end-of-life forecasts ('ELFs') to assess the performance of the contract portfolios year on year, and tested forecast cash flow calculations supporting the recognition of these amounts; – 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 the Group's internal legal counsel, 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 the Group's external solicitors, where applicable, to assess whether this information supported the position taken on the contract; – We obtained an understanding of the relevant contractual clauses and terms and conditions and agreed forecast revenue to signed contracts, signed variations, agreed compensation events or other corroborative and supporting documentation; – We reconciled revenue recognised with amounts applied for and amounts certified by clients and agreed on a sample basis the amounts received to cash. Where there were reconciling items we understood the nature of these items to ensure these were appropriate; – We agreed forecast costs to complete to supporting evidence (such as orders signed with subcontractors, performed look back testing and assessed the appropriateness of forecast run rates) and applied industry knowledge and experience to challenge the completeness and accuracy of the forecast costs to completion including any cost contingencies held; – We assessed the recoverability of balance sheet items by comparing these to external certification of the value of work performed and subsequent cash receipts; – For the residual contract population ('the tail') we performed targeted risk-based procedures including for example testing costs to come, material unagreed change, reviewing the contract forecast report for unusual items and recalculating the percentage of completion; – 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 2022 financial year; – We reviewed the outcome of prior year forecasts against current year outcomes to assess management's judgements and forecasting accuracy; 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/losses have been recorded appropriately.

Key audit matter	How our audit addressed the key audit matter
Presentation of the Group's financial performance (Group) Refer to page 108 (Risk Management and Audit Committee report) and page 163 (Accounting policy). Consistent with the prior year, the Directors present in note 5 to the accounts, the Group's principal Alternative Performance Measure as 'Adjusted Operating Profit' such that the Group's APM is consistent with how management reviews the performance of the business. The Group's adjusted profit from operations of £120.5m is stated after charging: – £19.7m of amortisation of acquired intangibles; – £40.0m of restructuring and related charges; and – £15.7m 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 ensured that the Group's APMs were appropriately reconciled to the relevant statutory measures; – 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 continue to present certain costs within the Regional Southern Build business as restructuring and related charges on the basis that certain of these costs related to contract and tender positions. We accepted this judgement on the basis that the costs recorded in the year represented a continuation of the ongoing strategic restructuring of this regional business, noting that this is expected to be concluded shortly; – We challenged whether immaterial items, for example redundancy costs and costs incurred resizing the international operations, were adjusting in line with the Group's accounting policy. We accepted the treatment on the basis that these items are excluded in the results reported to and reviewed by the Board (the Group's Chief Operating Decision Maker) and they are not dissimilar to costs that are often excluded from headline profits; – We tested the completeness and accuracy of the £7.8m of fire and cladding costs recorded as adjusting items to ensure there was sufficient evidence to support the positions recorded; and – 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 reasons 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 profit for the year.

Key audit matter	How our audit addressed the key audit matter
Impairment of goodwill (Group) Refer to page 108 (Risk Management and Audit Committee report) and page 163 (Accounting policy). The Group has £536.7m of goodwill on its balance sheet at 30 June 2022 of which £516.3m 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. The carrying value of goodwill is required to be supported by the higher of future cash flows (value in use) or the fair value less cost to sell of each CGU. There is a risk that the assets will be impaired if the cash flows do not meet the Group's forecast projections. The impairment reviews performed by the Group contain a number of estimates including discount rates, growth rates and expected changes to revenue and operating margins during the forecast periods. Changes in these assumptions could lead to an impairment to the carrying value of the assets. 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. The headroom in management's assessment is £154m (22%) (2021: £118m).	In evaluating the Directors' annual impairment assessment for goodwill in respect of Infrastructure Services, we performed the following procedures: – We tested the integrity of management's model and 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 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 forecasts that the business's cash flows would be earned into perpetuity, including considering whether the impact of climate change posed a risk to the Group's long-term operations and associated impairment assessments; – We challenged management's assumptions in respect of inflation, current labour and material shortages and how the potential impact of climate change had been reflected in future cash flows; – We tested the discount rate and long-term growth rate applied with the support of our internal valuation experts; and – We sensitised key assumptions including, the short-term and long-term growth rates applied to revenue, forecast operating profits and margins, the discount rate 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 investments in Group companies and recoverability of amounts owed by subsidiaries (parent) Refer to page 108 (Risk Management and Audit Committee report) and page 222 (Company notes to the financial statements). The Company holds investments in subsidiaries of £437.8m (2021: £429.2m) the largest of which is in Kier Limited of £415.5m (2021: £412.2m) and net amounts owed by subsidiary undertakings of £1,406.6m (2021: £1,291.8m). We have focused on these areas due to the magnitude of the investments in, and net amounts owed by, subsidiary undertakings, when for example compared to the Group's market capitalisation (which remains below the carrying value of the investments in subsidiaries). The Directors' assessment of the carrying value of investments was that no impairment was required. Similarly, all amounts owed by subsidiary undertakings were assessed as being recoverable.	We reviewed the Directors' impairment assessment of the carrying value of the investment in Kier Limited and net amounts owed by subsidiary undertakings. In respect of the investment in Kier Limited, we agreed the forecast 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. We verified that the aggregate net current assets of subsidiary undertakings were sufficient to support amounts owed by subsidiary undertakings and whether, in accordance with IFRS 9, an expected credit loss was required. As a result of these procedures, we were satisfied with the Directors' conclusion that no impairment was required against the carrying value of the investments in subsidiaries or the net amounts owed by subsidiary undertakings.

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 99% of the Group's revenue, with the remaining 1% generated from overseas businesses. We instructed a component team in Dubai to perform specified audit procedures on the Group's Middle East construction business. Our audit approach was designed to obtain coverage over 99% of the Group's revenue. 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.

In planning our audit, we made enquiries with management to understand the extent of the potential impact of climate change risk on the Group's financial statements. Management concluded that there was no material impact on the financial statements. Our evaluation of this conclusion included challenging key judgements and estimates in areas where we considered that there was greatest potential for climate change impact. We particularly considered how climate change risks (and opportunities) could impact the assumptions made in areas such as goodwill impairment, recoverability of contract assets (see key audit matters above) and the valuation of investment property. We also considered the consistency of the disclosures in relation to climate change made within the Annual Report.

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	£11.0m (2021: £7.7m).	£9.9m (2021: £6.9m).
How we determined it	0.35% of total revenue (2021: based on a three-year average of 5% of statutory results before tax from continuing operations)	1% of total assets capped at 90% of Group materiality
Rationale for benchmark applied	This year, we re-evaluated the way in which we determined materiality, and we considered different benchmarks based on a number of profit measures and revenue, taking into account the fluctuating performance of the business over the last few years and the overall scale of the business. This gave us a range within which to determine materiality. Based on our professional judgement, we concluded that an amount of £11.0m was appropriate, representing 0.35% of the Group's revenue.	The Company primarily holds intercompany receivables, investments in subsidiaries and debt. We, therefore, 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 was less than our overall Group materiality. The range of materiality allocated across components was between £1m and £9.9m. Certain components were audited to a local statutory audit materiality that was also less than the allocated component 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% (2021: 75%) of overall materiality, amounting to £8.3m (2021: £5.8m) for the Group financial statements and £7.4m (2021: £5.2m) 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 at the upper end 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 £0.6m (Group audit) (2021: £0.4m) and £0.6m (Company audit) (2021: £0.4m) 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;
- Testing, on a sample basis, significant contracts in the Group's pipeline to obtain evidence in support of the revenue forecasts in the going concern model;
- Performing sensitivity analysis over management's forecasts, particularly with respect to the rising inflationary and interest rate environment, in order to determine whether under severe but plausible scenarios the Group's peak debt could exceed its lending limits and/or the Group could breach covenant limits. This included consideration as to 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;
- Reviewing management's covenant calculations, covering the period from 30 June 2022 to 31 December 2023 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 macroeconomic risks, such as inflationary pressures and increasing interest rates, 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.

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, which includes reporting based on the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations. 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 2022 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 and employment legislation, data protection legislation, the Health and Safety Executive legislation and equivalent local laws. Fire Safety Act 2021, anti-bribery and corruption legislation, environmental legislation, construction laws and regulations applicable to overseas operations, and 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, Listing Rules and tax legislation. 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:

- 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.

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 members 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 eight years, covering the years ended 30 June 2015 to 30 June 2022.

Other matter

As required by the Financial Conduct Authority Disclosure Guidance and Transparency Rule 4.1.14R, these financial statements form part of the ESEF-prepared annual financial report filed on the National Storage Mechanism of the Financial Conduct Authority in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditors' report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

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

14 September 2022

Consolidated income statement
For the year ended 30 June 2022

	Note	2022 £m	2021 £m
Continuing operations			
Revenue	2		
Group and share of joint ventures[1]	3	**3,256.5**	3,328.5
Less share of joint ventures	3	**(112.6)**	(67.5)
Group revenue		**3,143.9**	3,261.0
Cost of sales		**(2,879.9)**	(2,976.9)
Gross profit		**264.0**	284.1
Administrative expenses		**(245.5)**	(240.1)
Share of post-tax results of joint ventures	15	**26.6**	(0.3)
Profit from operations	3, 4	**45.1**	43.7
Finance income	6	**0.7**	3.7
Finance costs	6	**(29.9)**	(41.8)
Profit before tax	3	**15.9**	5.6
Taxation	9	**(3.2)**	17.4
Profit for the year from continuing operations	3	**12.7**	23.0
Discontinued operations			
Loss for the year from discontinued operations (attributable to equity holders of the parent)	22	**–**	(24.6)
Profit/(loss) for the year	3	**12.7**	(1.6)
Attributable to:			
Owners of the parent		**12.7**	(0.3)
Non-controlling interests		**–**	(1.3)
		12.7	(1.6)
Earnings per share from continuing operations			
– Basic	11	**2.9p**	11.6p
– Diluted	11	**2.8p**	11.4p
Total earnings/(loss) per share			
– Basic	11	**2.9p**	(0.1)p
– Diluted	11	**2.8p**	(0.1)p
Supplementary information from continuing operations			
Adjusted[2] operating profit	5	**120.5**	100.3
Adjusted[2] profit before tax	5	**94.1**	65.4
Adjusted[2] earnings per share	11	**16.8p**	25.0p
Adjusted[2] diluted earnings per share	11	**16.4p**	24.6p

1 Group revenue including joint ventures is an alternative performance measure, see page 227.
2 Reference to 'adjusted' excludes adjusting items, see notes 1 and 5. These are alternative performance measures, see page 227.

Consolidated statement of comprehensive income

For the year ended 30 June 2022

	Note	2022 £m	2021 £m
Profit/(loss) for the year		**12.7**	(1.6)
Items that may be reclassified subsequently to the income statement			
Fair value movements on cash flow hedging instruments		**6.4**	(16.6)
Fair value movements on cash flow hedging instruments recycled to the income statement	6	**(7.4)**	15.0
Deferred tax on fair value movements on cash flow hedging instruments	9	**0.2**	0.3
Foreign exchange translation differences		**3.9**	(3.2)
Foreign exchange movements recycled to the income statement	6	**–**	0.1
Total items that may be reclassified subsequently to the income statement		**3.1**	(4.4)
Items that will not be reclassified to the income statement			
Re-measurement of retirement benefit assets and obligations	8	**136.3**	(29.8)
Deferred tax on re-measurement of retirement benefit assets and obligations	9	**(34.7)**	4.8
Total items that will not be reclassified to the income statement		**101.6**	(25.0)
Other comprehensive income/(loss) for the year		**104.7**	(29.4)
Total comprehensive income/(loss) for the year		**117.4**	(31.0)
Attributable to:			
Equity holders of the parent		**117.4**	(29.7)
Non-controlling interests – continuing operations		**–**	(1.3)
		117.4	(31.0)
Total comprehensive income/(loss) attributable to equity shareholders arises from:			
Continuing operations		**117.4**	(5.1)
Discontinued operations		**–**	(24.6)
		117.4	(29.7)

Consolidated statement of changes in equity

For the year ended 30 June 2022

	Note	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 1 July 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)
Total comprehensive loss for the year		–	–	–	(25.3)	(1.3)	(3.1)	–	(29.7)	(1.3)	(31.0)
Issue of own shares	26	2.9	–	–	–	–	–	215.8	218.7	–	218.7
Share-based payments	27	–	–	–	7.0	–	–	–	7.0	–	7.0
Purchase of own shares	27	–	–	–	(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
Profit for the year		**–**	**–**	**–**	**12.7**	**–**	**–**	**–**	**12.7**	**–**	**12.7**
Other comprehensive income/(loss)		**–**	**–**	**–**	**101.6**	**(0.8)**	**3.9**	**–**	**104.7**	**–**	**104.7**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**114.3**	**(0.8)**	**3.9**	**–**	**117.4**	**–**	**117.4**
Issue of own shares		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**0.6**	**0.6**
Share-based payments	27	**–**	**–**	**–**	**8.6**	**–**	**–**	**–**	**8.6**	**–**	**8.6**
Purchase of own shares	27	**–**	**–**	**–**	**(7.0)**	**–**	**–**	**–**	**(7.0)**	**–**	**(7.0)**
At 30 June 2022		**4.5**	**684.3**	**2.7**	**(494.9)**	**(0.9)**	**8.9**	**350.6**	**555.2**	**(0.6)**	**554.6**

The numbers in the table above are shown net of tax as applicable.

Consolidated balance sheet
As at 30 June 2022

	Note	2022 £m	2021 £m
Non-current assets			
Intangible assets	12	**669.1**	697.2
Property, plant and equipment	13	**32.7**	43.3
Right-of-use assets	23	**80.6**	96.5
Investment properties	14	**60.4**	49.6
Investments in and loans to joint ventures	15	**82.3**	98.9
Capitalised mobilisation costs	16	**11.6**	3.8
Deferred tax assets	17	**108.8**	138.0
Contract assets	18	**31.2**	30.7
Trade and other receivables	19	**17.0**	24.1
Retirement benefit assets	8	**199.2**	87.2
Other financial assets	29	**8.5**	11.4
Non-current assets		**1,301.4**	1,280.7
Current assets			
Inventories	20	**56.8**	54.7
Contract assets	18	**366.3**	335.7
Trade and other receivables	19	**202.9**	203.1
Corporation tax receivable		**10.0**	13.6
Other financial assets	29	**3.7**	2.0
Cash and cash equivalents	21	**297.7**	391.2
Current assets		**937.4**	1,000.3
Total assets		**2,238.8**	2,281.0
Current liabilities			
Borrowings	21	**(40.5)**	(38.2)
Lease liabilities	23	**(25.9)**	(27.4)
Trade and other payables	24	**(1,065.7)**	(1,093.1)
Contract liabilities	18	**(67.3)**	(59.9)
Provisions	25	**(22.2)**	(14.9)
Current liabilities		**(1,221.6)**	(1,233.5)
Non-current liabilities			
Borrowings	21	**(266.5)**	(362.3)
Lease liabilities	23	**(131.7)**	(136.4)
Trade and other payables	24	**(34.1)**	(39.9)
Retirement benefit obligations	8	**(4.5)**	(41.0)
Provisions	25	**(25.8)**	(32.9)
Non-current liabilities		**(462.6)**	(612.5)
Total liabilities		**(1,684.2)**	(1,846.0)
Net assets	3	**554.6**	435.0
Equity			
Share capital	26	**4.5**	4.5
Share premium		**684.3**	684.3
Capital redemption reserve		**2.7**	2.7
Accumulated losses		**(494.9)**	(610.8)
Cash flow hedge reserve		**(0.9)**	(0.1)
Translation reserve		**8.9**	5.0
Merger reserve	26	**350.6**	350.6
Equity attributable to owners of the parent		**555.2**	436.2
Non-controlling interests		**(0.6)**	(1.2)
Total equity		**554.6**	435.0

The financial statements of Kier Group plc, company registration number 2708030, on pages 148–218 were approved by the Board of Directors on 14 September 2022 and were signed on its behalf by:

Andrew Davies
Chief Executive

Simon Kesterton
Chief Financial Officer

Consolidated statement of cash flows

For the year ended 30 June 2022

		Note	2022 £m	2021 £m
Cash flows from operating activities				
Profit/(loss) before tax	– continuing operations		**15.9**	5.6
	– discontinued operations	22	**–**	(24.6)
Net finance cost		6	**29.2**	38.1
Share of post-tax trading results of joint ventures		15	**(26.6)**	0.3
Difference between pension funding contributions paid and the pension cost (credit)/charge		8	**(0.4)**	0.7
Equity-settled share-based payments charge		27	**8.6**	7.0
Amortisation and impairment of intangible assets and mobilisation costs		12,16	**30.3**	30.9
Reversal of impairment of assets held for sale and intangible assets		5,12	**–**	(5.4)
Change in fair value of investment properties		14	**(0.2)**	0.3
Research and development expenditure credit		9	**(20.7)**	(13.3)
Depreciation and impairment of property, plant and equipment		13	**10.7**	6.4
Depreciation and impairment of right-of-use assets		23	**35.2**	33.7
Loss on disposal of joint ventures and subsidiaries		22	**–**	12.1
Loss/(profit) on disposal of property, plant and equipment and intangible assets			**0.8**	(0.2)
Operating cash inflows before movements in working capital and pension deficit contributions			**82.8**	91.6
Deficit contributions to pension funds		8	**(10.8)**	(37.0)
(Increase)/decrease in inventories		21	**(2.1)**	3.9
Decrease in receivables		21	**7.3**	43.0
Increase in contract assets		21	**(31.6)**	(95.3)
(Decrease)/increase in payables		21	**(12.4)**	100.7
Increase/(decrease) in contract liabilities			**7.4**	(48.8)
Increase/(decrease) in provisions		21	**0.2**	(31.3)
Cash inflow from operating activities			**40.8**	26.8
Dividends received from joint ventures		15	**32.5**	6.3
Interest received		6	**0.7**	3.7
Income tax received		9	**–**	11.2
Net cash inflow from operating activities			**74.0**	48.0
Cash flows from investing activities				
Proceeds from sale of property, plant and equipment			**4.2**	2.5
Proceeds from sale of subsidiaries and joint ventures, net of cash disposed		22	**–**	120.8
Purchase of property, plant and equipment		13	**(6.0)**	(3.3)
Purchase of intangible assets		12	**(0.7)**	(3.1)
Purchase of capitalised mobilisation costs		16	**(10.2)**	(3.5)
Investment in joint ventures		15	**(16.8)**	(9.2)
Loan repayment and return of equity from joint ventures		15	**27.5**	9.3
Net cash (used in)/from investing activities			**(2.0)**	113.5
Cash flows from financing activities				
Issue of shares net of associated transaction costs		26	**(6.1)**	224.8
Issue of shares to non-controlling interest			**0.6**	–
Purchase of own shares		27	**(7.0)**	(0.5)
Interest paid			**(28.8)**	(28.4)
Principal elements of lease payments		23	**(33.8)**	(39.6)
Repayment of borrowings		21	**(101.8)**	(337.4)
Settlement of derivative financial instruments			**7.5**	–
Net cash used in financing activities			**(169.4)**	(181.1)
Decrease in cash, cash equivalents and overdraft			**(97.4)**	(19.6)
Effect of change in foreign exchange rates			**3.9**	(3.1)
Opening cash, cash equivalents and overdraft			**391.2**	413.9
Closing cash, cash equivalents and overdraft		21	**297.7**	391.2

	Note	2022 £m	2021 £m
Supplementary information			
Adjusted cash flow from operating activities	5	**82.0**	98.9

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 2022 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 14 September 2022.

Statement of compliance

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Kier Group plc transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 July 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The Group's consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards effective for accounting periods beginning on or after 1 July 2021 and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

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 219–225.

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 2022 onwards:
- Amendments to IFRS 7 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts', IFRS 16 'Leases' and IFRS 9 'Financial Instruments' for interest rate benchmark reform (phase 2)
- Amendments to IFRS 4 'Insurance Contracts' in relation to the deferral of IFRS 9
- Amendments to IFRS 16 'Leases' for extension of COVID-19 related rent concessions

None of the above amendments to standards has had a material effect on the Group's financial statements for the current period nor is expected to do so for future periods.

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 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 does have its own captive insurance company, Tempsford Insurance Company Limited, this company does not issue insurance contracts to parties outside of the Group and therefore the Group has concluded that this arrangement will not have a material impact on the Group's consolidated financial statements. However, the widely drawn definition of an insurance contract means that a number of relatively common contracts entered into by non-insurers may be considered to be insurance contracts, even if they are not typically thought of in those terms. Some contracts that provide a service for a fixed fee may meet the definition of an insurance contract, where the level of service provided depends on uncertain future events (for example, reactive repair and maintenance services). Therefore, the Group is currently evaluating its fixed fee service contracts to establish whether the Group will need to adopt a different accounting treatment for any of these contracts under IFRS 17 and, if that's the case, whether it will have any significant effect on the Group's financial statements.

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 performed well through the year ended 30 June 2022 and produced results in line with the Board's expectations. Average net debt compared to the prior year has reduced significantly following the sale of Kier Living and the equity raise in the last quarter of FY21. The Group continues to win new, high-quality and profitable 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. As a result, the order book as at 30 June 2022 increased to £9.8bn (2021: £7.7bn).

As at 30 June 2022, the Group had £654.0m of unsecured committed facilities and £18.0m of uncommitted overdrafts. Additionally, as at 30 June 2022, the Group had invoices outstanding to the value of £49.8m under uncommitted supply chain financing facilities ('KEPS'). As from 10 July 2022, the Group had no outstanding invoices under the KEPS facilities.

1 Significant accounting policies continued

Financial covenant certificates for June 2022 have been prepared with no breaches noted. The Directors have reviewed the Group's cash flow forecasts for the period to 31 December 2023, 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 financial covenants within the Group's principal debt facilities as a result of or in light of the following factors or circumstances:
– Potential reductions in trading volumes;
– Potential future challenges in respect of ongoing projects;
– The availability of supply-chain finance;
– Project inflation and subcontractor insolvency;
– Reduced investment/delays in Property transactions and cost of adoption of green legislation; and
– Plausible changes in the interest rate environment.

The Board also continues to monitor the ongoing impact of COVID-19, however at present the risk of ongoing material impact has been deemed low.

The Board also considered the macroeconomic and political risks affecting the UK economy, including the availability of labour, increased supply chain costs and increased interest rates. 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 infrastructure, health, education and utilities, which are considered likely to remain largely unaffected by macroeconomic factors. Although inflationary pressures remain a risk, both in the supply chain and the labour market, this is partly mitigated by c.60% of contracts being target cost or cost plus.

The Board has also considered the potential impact of climate change and does not consider the Group's operations are at risk from physical climate-related risks such as hurricanes and temperature changes in the short term. In the medium term the Board has concluded that any adverse financial impacts from required changes to operations in line with ESG requirements will be offset by opportunities which present the Group with additional volumes and profits, such as replacement of non-sustainable buildings, construction of new 'clean' power plants and 'green' building conversions. As such, the longevity of the Group's business model means that climate change has no material adverse impact on going concern.

Having reviewed the Group's cash flow forecasts, the Directors consider that the Group is expected to continue to have available liquidity headroom under its finance facilities and operate within its financial covenants over the going concern period, including in a downside scenario. The Directors also note that the risk associated with going concern has reduced following the corporate actions taken in the previous 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 twelve 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.

Changes in significant accounting policies

Following the introduction of IFRS 9, which was effective from 1 July 2018, the Group chose to continue to apply the hedge accounting requirements of IAS 39. The Group has elected to adopt the general hedge accounting model in IFRS 9, with effect from 1 July 2021. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings. The Group's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9. All hedging relationships designated under IAS 39 at 30 June 2021 met the criteria for hedge accounting under IFRS 9 at 1 July 2021 and are therefore regarded as continuing hedging relationships.

The transition from IAS 39 to IFRS 9 hedge accounting requirements has not had a material effect on the Group's financial statements.

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 2022. 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.

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 monetary 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 payment 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.

1 Significant accounting policies continued

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, and those services are distinct, 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.

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.

Alternative performance measures

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.

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.

A glossary of alternative performance measures is included on page 227.

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.

The Group participates in the UK government's Research and Development Expenditure Credit ('RDEC') tax incentive scheme. Credits receivable under the RDEC scheme are recognised within operating profit and are treated as taxable income. Amounts receivable in respect of RDEC claims are included on the balance sheet within the corporation tax receivable balance or as a reduction in the corporation tax payable balance, as appropriate.

1 Significant accounting policies continued

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.

Software as a service

Costs incurred relating to software as a service ('SaaS') that provide future benefit to the Group are included within prepayments and written off over the period to which they relate. All other costs in respect of SaaS are expensed to the income statement as 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:

Land and buildings	25–50 years or period of lease
Plant and equipment	3–12 years
Mining asset	'Coaling life' – see page 159

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 14. 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 and provisions

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.

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.

1 Significant accounting policies continued

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 applies to 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 Finnerty 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

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 portion of changes in the fair value of these derivatives is recognised in the cash flow hedge reserve within equity. 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.

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. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

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. The fair values of derivative instruments 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 the balance sheet date.

1 Significant accounting policies continued

Critical accounting estimates and judgements

Management considers that their use of estimates, assumptions and judgements in the application of the Group's accounting policies are inter-related and therefore discuss them together below with the major sources of estimation uncertainty and significant judgements separately identified:

(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 two contracts (2021: three contracts) that the Group considers require significant accounting estimates and, as at 30 June 2022, the Group has included estimated recoveries from customers with a combined value of £11.4m (2021: £12.3m). 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 £10.0m (2021: £12.0m) to a downside, including the risk of counterclaims being levied against the Group, of £12.2m (2021: £14.2m).

Over 500 construction contracts (2021: over 500) were income generating during the year within the Group's Construction and Infrastructure Services operating divisions. Of these, none (2021: one) individually had a material impact on operating profit.

The key judgements and estimates relating to determining the revenue and profit of material contracts are:
- costs to complete;
- achieving the planned build programme; and
- recoverability of claims and variations in accordance with IFRS 15.

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 critical 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 350 sites (2021: 400) each year with an average project size of £12.9m (2021: £11.6m) and with average revenue in the year of £3.3m (2021: £3.9m). 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 two stage 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 £1.4bn (2021: £1.8bn) with an associated adjusted operating profit margin of 4.2% (2021: 3.2%).

The historic profit margins in the construction businesses typically range from 2.0% to 4.4%. A potential downside risk in margin would be 2.4% (2021: 1.2%). 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 £34.6m (2021: £21.2m).

(b) Life cycle assets

The Group has a number of ongoing contracts where life cycle 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 8.

(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 12 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 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 page 157. Determining whether an item is classified as an adjusting item requires judgement.

Total adjusting items of £78.2m were charged to the income statement in respect of continuing operations for the year ended 30 June 2022 (2021: £59.8m). There were no discontinued operations during the year (2021: £24.8m of additional adjusting items for 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 £105.6m (2021: £108.6m) 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 goodwill section of this note.

The basis for recognising this tax asset is set out in note 17 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. 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 2022, the value of land and work in progress held for development was £43.0m (2021: £39.1m).

(j) Fire and cladding

The Group has undertaken a review of all of its current and legacy constructed buildings where it has used cladding solutions and continues to assess the action required in line with the latest updates to Government guidance, as it applies, to multi-storey and multi-occupied residential buildings. The buildings, including the cladding works, were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of completion.

We recognise that Government guidance on the retrospective review of building materials continues to evolve. In preparing the financial statements, currently available information has been considered, including the current best estimate of the extent and future costs of work required, based on the reviews and physical inspections undertaken.

Where an obligation has been established and a reliable estimate of the costs to rectify is available, a provision has been made (see note 25). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses or if Government legislation and regulation further evolves.

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 station infrastructure, roads, railways, bridges and tunnels, over a period of several years (e.g. Hinkley Point C, Sellafield SRP 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 25).

Construction

The Group undertakes over 350 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.

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 25).

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 life cycle contracts, as noted below.

The Group has a number of long-term PFI life cycle 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. Due to the length of time between performance of the services and payment of the surplus, the Group considers there to be a significant financing component within this element of the transaction price and has therefore adjusted for the time value of money in measuring the revenue recognised in respect of end-of-contract surpluses.

Environmental services contracts with local authorities, for domestic waste and recyclate collections and operation of household waste and recycling centres, 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. Revenue for the sale of recyclate materials is recognised at the point in time that the materials are transferred to the customer.

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 2022

	2023 £m	**2024 £m**	**2025 onwards £m**
Infrastructure Services	**955.4**	**676.5**	**493.7**
Construction	**752.9**	**255.8**	**2.0**
Property	**–**	**–**	**–**
Total transaction price allocated to remaining performance obligations	**1,708.3**	**932.3**	**495.7**

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

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

The Group operates three divisions: Infrastructure Services, Construction and Property, which is the basis on which the Group manages and reports its primary segmental information. Corporate principally includes unrecovered overheads and the charge for defined benefit pension schemes.

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 18–23. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (note 1). 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.

Year to 30 June 2022

Continuing operations	Infrastructure Services £m	Construction £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,666.6	1,440.8	144.3	4.8	3,256.5
Less share of joint ventures	–	(3.1)	(109.5)	–	(112.6)
Group revenue	1,666.6	1,437.7	34.8	4.8	3,143.9
Timing of revenue[1]					
Products and services transferred at a point in time	5.3	1.5	90.7	–	97.5
Products and services transferred over time	1,661.3	1,439.3	53.6	4.8	3,159.0
Group and share of joint ventures	1,666.6	1,440.8	144.3	4.8	3,256.5
Profit for the year					
Operating profit/(loss) before adjusting items[2]	70.0	60.8	17.6	(27.9)	120.5
Adjusting items[2]	(21.9)	(39.0)	(0.9)	(13.6)	(75.4)
Profit/(loss) from operations	48.1	21.8	16.7	(41.5)	45.1
Net finance income/(costs)[3]	2.1	(4.1)	(1.6)	(25.6)	(29.2)
Profit/(loss) before tax from continuing operations	50.2	17.7	15.1	(67.1)	15.9
Taxation					(3.2)
Profit for the year from continuing operations					12.7
Result for the year from discontinued operations					–
Profit for the year					12.7
Balance sheet					
Operating assets[4]	925.5	442.6	144.0	416.8	1,928.9
Operating liabilities[4]	(466.0)	(706.2)	(25.9)	(179.1)	(1,377.2)
Net operating assets/(liabilities)[4]	459.5	(263.6)	118.1	237.7	551.7
Cash, cash equivalents and borrowings	440.2	504.0	(90.3)	(863.2)	(9.3)
Net financial assets	–	–	–	12.2	12.2
Net assets/(liabilities)	899.7	240.4	27.8	(613.3)	554.6
Other information					
Inter-segmental revenue	25.7	–	–	43.6	69.3
Capital expenditure on property, plant, equipment and intangible assets	2.6	0.4	–	3.7	6.7
Depreciation of property, plant and equipment	(0.9)	(0.4)	(0.2)	(5.1)	(6.6)
Amortisation of computer software	(0.7)	(1.2)	–	(4.1)	(6.0)

Year to 30 June 2021

Continuing operations	Infrastructure Services £m	Construction £m	Property £m	Corporate £m	Group £m
Revenue[1]					
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 revenue[1]					
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[2]	65.3	56.7	5.7	(27.4)	100.3
Adjusting items[2]	(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[3]	–	(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[5]					(24.6)
Loss for the year					(1.6)
Balance sheet					
Operating assets[4]	945.3	459.6	167.0	304.5	1,876.4
Operating liabilities[4]	(457.0)	(749.0)	(24.0)	(215.5)	(1,445.5)
Net operating assets/(liabilities)[4]	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)

1 Revenue is stated after the exclusion of inter-segmental revenue. Over 90% of the Group's revenue is derived from UK-based customers. 11% of the Group's revenue was received from National Highways (2021: 12%). Group revenue including joint ventures is an alternative performance measure, see page 227.
2 See notes 1 and 5 for adjusting items.
3 Interest was (charged)/credited to the divisions at a notional rate of 4.0%.
4 Net operating assets/(liabilities) represent assets excluding cash, cash equivalents, bank overdrafts, borrowings, financial assets and liabilities, and interest-bearing inter-company loans.
5 See note 22(b).

4 Profit from operations

Profit from operations is stated after charging/(crediting):

	Note	2022 £m	2021 £m
Auditors' remuneration:			
Fees payable for the audit of the parent company and consolidated financial statements		**1.9**	1.8
Fees payable to the Company's auditors for other services[1]:			
Audit of the Company's subsidiaries, pursuant to legislation		**1.2**	1.9
Audit related assurance services		**0.2**	0.5
Amortisation of intangible assets	12	**25.7**	29.3
Impairment/(impairment reversal) of intangible assets	12	**2.2**	(2.4)
Loss on disposal of computer software	12	**0.9**	0.5
Depreciation of property, plant and equipment	13	**6.6**	6.4
Profit on sale of property, plant and equipment		**(0.1)**	(1.0)
Impairment of property, plant and equipment	13	**4.1**	–
Depreciation of right-of-use assets	23	**30.0**	33.7
Impairment of right-of-use assets	23	**5.2**	–
Fair value adjustment to investment properties	14	**(0.2)**	0.3
Amortisation of capitalised mobilisation costs	16	**2.4**	1.6
Expenses relating to short-term leases and leases of low-value assets	23	**98.9**	86.1
Net Research and Development Expenditure Credit receivable[2]	9	**(18.6)**	(12.0)
Net (profit)/loss from operations related to mining		**(0.2)**	0.4

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 109. Included in the 2022 audit fees are £0.2m for prior year work (2021: £0.9m). In 2022, the fees relating to other assurance services primarily related to the review of the interim statements. Also included are £2,000 (2021: £2,000) for a subscription service providing factual updates and changes to applicable law, regulation or accounting and auditing standards.

2 Includes £20.7m of receipts (2021: £13.3m) and £2.1m of fees payable to consultants (2021: £1.3m).

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		Profit before tax	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Reported profit from continuing operations	**45.1**	43.7	**15.9**	5.6
Amortisation of acquired intangible assets	**19.7**	21.0	**19.7**	21.0
Restructuring and related charges	**40.0**	31.6	**40.0**	31.6
Preparation for business divestment or closure	**–**	0.5	**–**	0.5
Other[1]	**15.7**	3.5	**18.5**	6.7
Adjusted profit from continuing operations	**120.5**	100.3	**94.1**	65.4

1 Operating profit adjusting items exclude net financing costs of £2.8m (2021: £3.2m), see note 5(d).

(a) Amortisation of acquired intangible assets

The Group has amortised contract rights, acquired primarily through the acquisitions of MRBL Limited (Mouchel Group), May Gurney Integrated Services PLC and McNicholas Construction Holdings Limited.

	Note	**2022 £m**	2021 £m
Amortisation of acquired intangible assets	12	**(19.7)**	(21.0)

(b) Restructuring and related charges

The Group has incurred significant restructuring charges relating to costs of organisational change associated with the Group's cost saving programmes and the Group's Strategic report. These are discussed further in the Financial review and are considered to be adjusting items on the basis of their size and the fact that they relate to significant changes to the Group's activities or workforce.

	Note	**2022 £m**	2021 £m
Restructure of Regional Southern Build business[1]		**(22.2)**	(13.6)
Redundancy and other people related costs[2]	7	**(6.5)**	(5.4)
Professional adviser fees and other costs incurred implementing non-people initiatives[3]		**(7.1)**	(11.9)
Impairments and other costs relating to investment properties[4]		**(4.2)**	(0.7)
Total charge before tax		**(40.0)**	(31.6)

1 The Group has completed its strategic restructuring of its Regional Southern Build business. The current year costs predominantly relate to five remaining projects. These projects are due to complete in FY23 although no additional cost is expected to be incurred. These costs consist of 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 and represent an extension of costs incurred in the prior years.

2 Costs of £4.7m 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. The current year charge also includes £1.8m of costs incurred in the re-sizing of the International operations. The Directors consider this to be an adjusting item due to its nature and size.

3 This includes a credit of £1.1m as a result of the finalisation of costs incurred on the equity raise in the prior year. This is offset by £3.8m of aborted acquisition costs and £4.4m of various other non-people related initiatives undertaken in the year.

4 Includes an impairment of £5.2m in respect of a corporate property in Fountain Street, Manchester, which was vacated during the year and is now held as an investment property. Following a fire, the land at a recycling plant has been transferred to investment property and has been included at fair value, which has resulted in a £0.7m credit. Also included is a further £2.0m credit in relation to fair value adjustments to Tempsford Hall and net costs in respect of other investment properties of £1.7m.

(c) 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 considered to be adjusting items on the basis that they relate to a major restructuring of the Group following the Strategic Review.

	2022 £m	2021 £m
Business closure and sales costs	**–**	(3.5)
Fair value reversal of assets held for sale	**–**	3.0
Total charge before tax	**–**	(0.5)

5 Adjusting items continued

d) Other adjusting items

Other adjusting items are analysed below:

	Note	2022 £m	2021 £m
Net financing costs[1]		**(2.8)**	(3.2)
Legal compliance[2]		**(8.8)**	(3.0)
Recycling Plant impairment and associated costs[3]		**(5.2)**	–
Software impairment[4]		**(2.2)**	–
Pension credit/(charge)[5]	8	**0.5**	(0.5)
Total charge before tax		**(18.5)**	(6.7)

1 Net financing costs relate to IFRS 16 interest charges on investment properties.
2 The Group has incurred £7.8m of costs in the year in complying with the updated fire compliance regulations. Of these amounts, £5.2m are provided for at year-end. This is considered to be an adjusting item since it relates to a specific and significant legal issue which is not considered to be reflective of the underlying performance of the business. The remaining charge relates to a settlement made in respect of an out of period claim that was notified during the year and so was treated as an adjusting item.
3 During the year, a fire occurred at one of the Group's recycling plants in Warwickshire. Following the fire, the building has been demolished and the majority of the contracts terminated. The fire is considered a one-off, significant event and as such all costs relating to the business are considered to be adjusting items in accordance with the Group's policy. These costs include a £4.1m impairment of the property, plant and equipment.
4 During the year, the Group impaired some software related to one of its design businesses. This impairment has been treated as an adjusting item due to its nature.
5 During the year, a Pension Increase Exchange ('PIE') exercise was undertaken which generated a £0.5m credit to the income statement. In the prior year, a charge of £0.5m in respect of GMP was incurred.

(e) Taxation

Adjusting items in respect of taxation are analysed below:

	2022 £m	2021 £m
Deferred tax credit as a result of the change in tax rate[1]	**5.1**	25.5
Tax impact of adjusting items[2]	**14.8**	12.2
Other tax charges[3]	**(3.6)**	(6.0)
Total tax credit	**16.3**	**31.7**

1 In the prior year, the change in tax rate from 19% to 25% led to a significant deferred tax credit in the income statement. This was a one-off event that is out of the Group's control and so is considered to be an adjusting item. During the year, the Group now expects additional amounts to reverse at the 25% tax rate.
2 The tax impact of the adjusting items charged to continuing operations has also been included as an adjusting item.
3 During the year, historical tax balances were identified mainly as a result of historic acquisitions and were written off. In the prior year, other tax charges primarily consisted 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.

(f) Discontinued operations

The Group disposed of Kier Living in May 2021. Adjusting items within discontinued operations in relation to this disposal are analysed below:

	Note	2022 £m	2021 £m
Loss on disposal of Kier Living	22	**–**	(12.1)
Closure costs relating to non-core businesses[1]		**–**	(1.0)
Charges in relation to the Eastern region[2]		**–**	(6.5)
Other disposal related costs[3]		**–**	(5.2)
Total charge before tax		**–**	(24.8)
Tax on adjusting items (discontinued)		**–**	0.5
Total charge after tax		**–**	(24.3)

1 Prior year costs were incurred in respect of Living's decision to exit the affordable housing market as well as the Welsh and Northern regions.
2 In preparing the Kier Living business for disposal in the prior year, the Group identified £6.5m of historic costs within a Kier Living joint venture that had built up in prior years 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 in the prior year included management incentives and impairment charges as a result of the disposal of Kier Living.

(g) Adjusted cash flow

	Note	2022 £m	2021 £m
Reported cash inflow from operating activities		**40.8**	26.8
Add: Cash outflow from operating activities (adjusting items)	5h	**41.2**	72.1
Adjusted cash inflow from operating activities		**82.0**	98.9

(h) Cash outflow from operating activities (adjusting items)

	2022 £m	2021 £m
Adjusting items reported in the income statement	**78.2**	84.7
Less: non-cash items incurred in the year	**(38.4)**	(45.3)
Add: payment of prior year accruals and provisions	**1.4**	21.2
Add: disposal fees included within loss on disposal	**–**	11.5
Cash outflow from operating activities (adjusting items)	**41.2**	72.1

6 Finance income and costs

	2022 £m	2021 £m
Finance income		
Interest receivable on loans to related parties	**0.7**	3.7
	0.7	3.7
Finance costs		
Bank interest	**(18.9)**	(23.2)
Interest payable on leases	**(6.5)**	(6.7)
Forward funding interest[1]	**(0.5)**	(8.8)
Foreign exchange (losses)/gains on foreign denominated borrowings	**(9.9)**	15.0
Fair value gains/(losses) on cash flow hedges recycled from other comprehensive income[2]	**7.4**	(15.0)
Discount unwind[3]	**(0.7)**	(1.1)
Net interest on net defined benefit obligation	**1.0**	0.9
Recycling of translation reserve	**–**	(0.1)
Other	**(1.8)**	(2.8)
	(29.9)	(41.8)
Net finance costs	**(29.2)**	(38.1)

1 The forward funding interest costs of £8.8m in the year to 30 June 2021 reflected an alignment of the accounting treatment across all forward funding development contracts. The charge of £8.8m included £3.9m that represented 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 was 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.
2 Fair value gains/(losses) arise from movements in cross-currency swaps which hedge the currency risk on foreign denominated borrowings, see note 29.
3 Unwind of discount in respect of acquired intangible assets.

7 Information relating to Directors and employees

	Note	2022 No.	2021[1] No.
Monthly average number of people employed during the year including Executive Directors by geographical location was:			
United Kingdom		**10,018**	10,742
Rest of world		**249**	968
		10,267	11,710
Monthly average number of people employed during the year including Executive Directors by segment was:			
Infrastructure Services		**5,895**	5,847
Construction		**3,780**	4,879
Property		**62**	58
Corporate		**530**	518
Discontinued operations		**–**	408
		10,267	11,710
		£m	£m
Group staff costs by geographical location are as follows:			
United Kingdom		**602.8**	607.2
Rest of world		**4.2**	11.5
		607.0	618.7
Group staff costs by segment are as follows:			
Infrastructure Services		**328.2**	298.9
Construction		**222.3**	238.8
Property		**10.5**	8.7
Corporate		**46.0**	44.8
Discontinued operations		**–**	27.5
		607.0	618.7
Comprising:			
Wages and salaries		**522.8**	536.1
Social security costs		**53.3**	51.6
Defined benefit pension scheme net credit to the income statement	8	**(1.4)**	(0.2)
Contributions to defined contribution pension schemes		**23.7**	24.2
Share-based payments charge	27	**8.6**	7.0
		607.0	618.7

1 Prior period costs have been restated by £17.6m to include accrued bonuses. There is no impact to the prior year consolidated income statement.

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 114–134. Redundancy costs incurred during the year of £4.7m (2021: £5.4m) have been classed as an adjusting item, see note 5, and are included in the disclosures above.

8 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.

The Group incurred fees totalling £4.2m (2021: £4.1m) 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.

As at 30 June 2022, the scheme had 2,178 deferred members (2021: 2,263), and 2,874 retirees (2021: 2,855).

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 triennial valuation as at 31 March 2022 has not yet been finalised.

Other defined benefit schemes

Acquired with the May Gurney Group

The May Gurney defined benefit scheme was acquired with May Gurney on 8 July 2013 and is closed to future accrual.

As at 30 June 2022, the scheme had 278 deferred members (2021: 285) and 290 retirees (2021: 287).

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 triennial valuation as at 31 March 2022 has not yet been finalised.

Acquired with the Mouchel Group

The Group acquired four defined benefit pension schemes with the Mouchel Group on 8 June 2015: the Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme.

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.

As at 30 June 2022, the Mouchel schemes had a total of 18 active members (2021: 18), 1,638 deferred members (2021: 1,684), and 1,646 retirees (2021: 1,622).

The EM Highways Prudential Platinum Scheme is a multi-employer scheme, however, Kier's share is separately identifiable. Therefore, the movements in the period are 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 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 triennial valuations as at 31 March 2022 have not yet been finalised.

8 Retirement benefit obligations continued

Acquired with the McNicholas Group

The McNicholas defined benefit pension scheme was acquired with the McNicholas Group on 12 July 2017. The scheme is closed to new entrants and no benefits have accrued since 30 April 2012. As at 30 June 2022, the scheme had a total of 56 deferred members (2021: 57) and 80 retirees (2021: 79).

During the year, the Group launched a member options exercise, offering a Pension Increase Exchange ('PIE') to members of the McNicholas pension scheme, in order to provide more flexibility and choice for members, reduce risk, and reduce cost in the Group's defined benefit pension schemes. The offering included a bulk PIE exercise, offering members who are already drawing a pension a one-off increase in pension in lieu of future annual increases on part of their pension and the introduction of a PIE option at the point of retirement. The terms are such that the IAS 19 pension liabilities are reduced if pensioners take up the PIE option. A combined gain, based on an assumed rate of take-up for both the bulk PIE exercise and the introduction of the at retirement option, of £0.5m has been recognised as a past service gain in the year to 30 June 2022.

Contributions to defined benefit schemes

The aggregate contributions payable in the year ended 30 June 2022 in respect of the Group's defined benefit pension schemes amounted to £10.8m (2021: £37.0m), which included regular past service deficit contributions of £9.9m (2021: £27.1m), current service employer contributions of £0.2m (2021: £0.2m) and additional deficit payments totalling £0.7m made in respect of the proceeds received from the Group's June 2022 equity raise (2021: £9.7m of additional payments made in respect of the proceeds received from the sale of Kier Living Limited). The Group agreed the latest deficit recovery plans with the trustees of the Kier Group scheme, May Gurney scheme, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section) on 18 September 2020, and agreed a revised schedule of contributions with the McNicholas scheme on 26 May 2022. Based on these contribution plans, the Group expects to make the following contributions over the next five years:

	2023 £m	2024 £m	2025 £m	2026 £m	2027 £m
Deficit contributions	**9.9**	**9.9**	**9.9**	**9.0**	**9.0**

In addition to the above contributions, the Group has agreed with the trustees of the Kier Group scheme, May Gurney scheme, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme and Mouchel Business Services Limited Pension Scheme (Final Salary Section) that additional deficit contributions will be payable in certain circumstances, including in the event of the Group meeting certain financial targets.

With the exception of the EM Highways Prudential Platinum Scheme, the Group has also agreed to meet each of the scheme's expenses including the Pension Protection Fund levy.

Contributions to defined contribution schemes

Contributions are also made to a number of defined contribution arrangements. The Group paid contributions to these arrangements of £23.7m (2021: £24.2m) 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 15 years (2021: 18 years).

The IAS 19 accounting valuations at 30 June 2022 of the Kier Group scheme, May Gurney scheme, Mouchel Superannuation Fund, Mouchel Business Services Limited Pension Scheme and the 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 surpluses, through either reduced contributions or a refund of the surpluses on winding up of the schemes.

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.

	2022 %	2021 %
Discount rate	**3.90**	1.90
Inflation rate (Retail Price Index ('RPI'))	**3.15**	3.15
Inflation rate (Consumer Price Index ('CPI'))	**2.65**	2.60
Rate of general increases in pensionable salaries	**3.15**	3.15
Rate of increase in pensions payments liable for Limited Price Indexation		
– RPI subject to minimum of 0% and a maximum 5%	**3.05**	3.05
– RPI subject to minimum of 0% and a maximum 2.5%	**2.15**	2.15

The mortality assumptions used were as follows:

	2022 Male years	2022 Female years	2021 Male years	2021 Female years
Life expectancy for a male/female currently aged 60				
– Kier Group scheme	**27.4**	**29.2**	27.4	29.1
– Acquired schemes	**26.8–27.7**	**29.2–30.0**	26.8–27.6	29.1–29.9
Life expectancy for a male/female member aged 60, in 20 years' time				
– Kier Group scheme	**28.7**	**30.6**	28.7	30.6
– Acquired schemes	**28.2–28.8**	**29.8–31.0**	28.1–28.8	29.7–30.9

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.

	2022			2021		
	Kier Group £m	Acquired schemes £m	Total £m	Kier Group £m	Acquired schemes £m	Total £m
Equities	**152.1**	**74.1**	**226.2**	415.8	69.4	485.2
Corporate bonds	**187.9**	**97.0**	**284.9**	795.8	100.6	896.4
Cash	**21.1**	**94.6**	**115.7**	20.4	100.1	120.5
Land and property	**19.8**	**1.3**	**21.1**	–	3.1	3.1
Absolute return	**64.4**	**34.6**	**99.0**	41.2	35.0	76.2
Annuity policies	**–**	**1.0**	**1.0**	–	1.1	1.1
Multi-asset	**92.7**	**44.7**	**137.4**	–	65.5	65.5
Liability-driven investments	**510.0**	**161.7**	**671.7**	–	261.9	261.9
Total market value of assets	**1,048.0**	**509.0**	**1,557.0**	1,273.2	636.7	1,909.9
Present value of liabilities	**(877.8)**	**(484.5)**	**(1,362.3)**	(1,194.6)	(669.1)	(1,863.7)
Surplus/(deficit)	**170.2**	**24.5**	**194.7**	78.6	(32.4)	46.2
Related deferred tax (liability)/asset	**(42.6)**	**(6.7)**	**(49.3)**	(19.7)	7.1	(12.6)
Net pension asset/(liability)	**127.6**	**17.8**	**145.4**	58.9	(25.3)	33.6

8 Retirement benefit obligations continued

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

	2022			2021		
	Kier Group £m	**Acquired schemes £m**	**Total £m**	Kier Group £m	Acquired schemes £m	Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	**–**	**(0.1)**	**(0.1)**	–	(0.2)	(0.2)
Past service gain/(cost)	**–**	**0.5**	**0.5**	(0.4)	(0.1)	(0.5)
Net interest on net defined benefit obligation	**1.5**	**(0.5)**	**1.0**	1.5	(0.6)	0.9
Pension income/(expense) recognised in the income statement	**1.5**	**(0.1)**	**1.4**	1.1	(0.9)	0.2
Remeasurement in comprehensive gain/(loss)						
Actual return less than that recognised in net interest	**(208.4)**	**(131.5)**	**(339.9)**	(14.3)	(12.3)	(26.6)
Actuarial gains/(losses) due to changes in financial assumptions	**302.7**	**182.4**	**485.1**	(24.9)	1.1	(23.8)
Actuarial gains due to changes in demographic assumptions	**0.9**	**0.6**	**1.5**	1.3	0.1	1.4
Actuarial (losses)/gains due to liability experience	**(5.6)**	**(4.8)**	**(10.4)**	11.7	7.5	19.2
Total amount recognised in full	**89.6**	**46.7**	**136.3**	(26.2)	(3.6)	(29.8)
Changes in the fair value of scheme assets						
Fair value at 1 July	**1,273.2**	**636.7**	**1,909.9**	1,300.5	637.4	1,937.9
Interest income on scheme assets	**23.8**	**12.0**	**35.8**	20.5	10.2	30.7
Remeasurement losses on scheme assets	**(208.4)**	**(131.5)**	**(339.9)**	(14.3)	(12.3)	(26.6)
Contributions by the employer	**0.5**	**10.3**	**10.8**	13.9	23.1	37.0
Net benefits paid out	**(41.1)**	**(18.5)**	**(59.6)**	(47.4)	(21.7)	(69.1)
Fair value at 30 June	**1,048.0**	**509.0**	**1,557.0**	1,273.2	636.7	1,909.9
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	**(1,194.6)**	**(669.1)**	**(1,863.7)**	(1,210.7)	(688.4)	(1,899.1)
Current service cost	**–**	**(0.1)**	**(0.1)**	–	(0.2)	(0.2)
Interest expense on scheme liabilities	**(22.3)**	**(12.5)**	**(34.8)**	(19.0)	(10.8)	(29.8)
Past service gain/(cost)	**–**	**0.5**	**0.5**	(0.4)	(0.1)	(0.5)
Actuarial gains/(losses) due to changes in financial assumptions	**302.7**	**182.4**	**485.1**	(24.9)	1.1	(23.8)
Actuarial gains due to changes in demographic assumptions	**0.9**	**0.6**	**1.5**	1.3	0.1	1.4
Actuarial (losses)/gains due to liability experience	**(5.6)**	**(4.8)**	**(10.4)**	11.7	7.5	19.2
Net benefits paid out	**41.1**	**18.5**	**59.6**	47.4	21.7	69.1
Fair value at 30 June	**(877.8)**	**(484.5)**	**(1,362.3)**	(1,194.6)	(669.1)	(1,863.7)
Amounts included in the balance sheet						
Fair value of scheme assets	**1,048.0**	**509.0**	**1,557.0**	1,273.2	636.7	1,909.9
Net present value of the defined benefit obligation	**(877.8)**	**(484.5)**	**(1,362.3)**	(1,194.6)	(669.1)	(1,863.7)
Net surplus/(deficit)	**170.2**	**24.5**	**194.7**	78.6	(32.4)	46.2
Related deferred tax (liability)/asset	**(42.6)**	**(6.7)**	**(49.3)**	(19.7)	7.1	(12.6)
Net pension asset/(liability)	**127.6**	**17.8**	**145.4**	58.9	(25.3)	33.6

The net surplus/(deficit) above is split between retirement benefit assets and obligations in the statement of financial position based on whether the individual pension schemes have a net surplus or deficit, as follows:

	2022			2021		
	Kier Group £m	**Acquired schemes £m**	**Total £m**	Kier Group £m	Acquired schemes £m	Total £m
Retirement benefit assets	**170.2**	**29.0**	**199.2**	78.6	8.6	87.2
Retirement benefit obligation	**–**	**(4.5)**	**(4.5)**	–	(41.0)	(41.0)
Net surplus/(deficit)	**170.2**	**24.5**	**194.7**	78.6	(32.4)	46.2

The movements in the net retirement benefit surplus/(deficit) are summarised as follows:

	2022			2021		
	Kier Group £m	**Acquired schemes £m**	**Total £m**	Kier Group £m	Acquired schemes £m	Total £m
Opening net surplus/(deficit)	**78.6**	**(32.4)**	**46.2**	89.8	(51.0)	38.8
Current service cost	**–**	**(0.1)**	**(0.1)**	–	(0.2)	(0.2)
Past service gain/(cost)	**–**	**0.5**	**0.5**	(0.4)	(0.1)	(0.5)
Net interest on net defined benefit obligation	**1.5**	**(0.5)**	**1.0**	1.5	(0.6)	0.9
Contributions by the employer	**0.5**	**10.3**	**10.8**	13.9	23.1	37.0
Actual return less than that recognised in net interest	**(208.4)**	**(131.5)**	**(339.9)**	(14.3)	(12.3)	(26.6)
Actuarial gains/(losses) due to changes in financial assumptions	**302.7**	**182.4**	**485.1**	(24.9)	1.1	(23.8)
Actuarial gains due to changes in demographic assumptions	**0.9**	**0.6**	**1.5**	1.3	0.1	1.4
Actuarial (losses)/gains due to liability experience	**(5.6)**	**(4.8)**	**(10.4)**	11.7	7.5	19.2
Closing net surplus/(deficit)	**170.2**	**24.5**	**194.7**	78.6	(32.4)	46.2

History of experience gains and losses for defined benefit schemes in aggregate:

	2022 £m	2021 £m	2020 £m	2019 £m	2018 £m
Fair value of scheme assets	**1,557.0**	1,909.9	1,937.9	1,789.4	1,681.2
Net present value of the defined benefit obligation	**(1,362.3)**	(1,863.7)	(1,899.1)	(1,769.9)	(1,673.3)
Net surplus	**194.7**	46.2	38.8	19.5	7.9
Related deferred tax liability	**(49.3)**	(12.6)	(7.4)	(3.3)	(1.3)
Net pension asset	**145.4**	33.6	31.4	16.2	6.6
Difference between expected and actual return on scheme assets	**(339.9)**	(26.6)	177.6	113.9	19.2
Experience (losses)/gains on scheme liabilities	**(10.4)**	19.2	40.2	(5.6)	(0.7)

8 Retirement benefit obligations continued

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 Schemes also have allocations to cash flow matching assets that are designed to fully match scheme benefit cash flows over the next five years. This reduces the risk that the Trustee will need to divest from assets to meet cash flow needs.

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 2022 (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 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 and are small in value relative to the size of the Schemes.

Pension sensitivity

The following table shows the change in the net surplus or deficit arising from a change in the significant actuarial assumptions used to determine the Group’s retirement benefit obligations:

	2022		2021	
Kier Group scheme:	**+0.25%/+1 year £m**	**-0.25%/-1 year £m**	+0.25%/+1 year £m	-0.25%/-1 year £m
Discount rate (+/-0.25%)	**47.6**	**(48.4)**	76.8	(81.6)
Inflation rate (+/-0.25%)	**(36.5)**	**35.2**	(58.1)	56.4
Members assumed to be one year older/younger in age (+/-1 year)	**40.0**	**(39.8)**	70.1	(71.0)

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.

9 Taxation

Taxation in respect of continuing operations is analysed below. Taxation that is relevant to discontinued operations is considered within note 22.

(a) Recognised in the income statement

	2022 £m	2021 £m
Current tax		
UK corporation tax	**5.1**	4.2
Adjustments in respect of prior years	**3.4**	1.0
Total current tax charge	**8.5**	5.2
Deferred tax		
Origination and reversal of temporary differences	**0.6**	–
Adjustments in respect of prior years	**(0.8)**	2.9
Rate change effect on deferred tax	**(5.1)**	(25.5)
Total deferred tax	**(5.3)**	(22.6)
Total tax charge/(credit) in the income statement	**3.2**	(17.4)
Reconciliation of effective tax rate		
Profit before tax	**15.9**	5.6
Tax on joint ventures included above	**0.1**	(1.4)
Profit before tax including joint ventures	**16.0**	4.2
Income tax at UK corporation tax rate of 19.0% (2021: 19.0%)	**3.0**	0.8
Non-deductible expenses and unusable tax losses	**0.8**	0.8
Income not taxable	**–**	(0.9)
Impact of Group relief and consortium relief	**0.2**	–
Effect of change in UK corporation tax rate	**(5.1)**	(25.5)
Share-based payment deduction	**1.6**	–
Utilisation of tax losses	**0.2**	3.1
Adjustments in respect of prior years	**2.6**	2.9
Total tax (including joint ventures)	**3.3**	(18.8)
Tax on joint ventures	**(0.1)**	1.4
Group tax charge/(credit) from continuing operations	**3.2**	(17.4)

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 charge including joint ventures of £3.3m (2021: £18.8m credit) shown in the table above equates to an effective tax rate of 20.6% (2021: 447.6%) on profit before tax including joint ventures of £16.0m (2021: £4.2m). This effective rate is different from the standard rate of corporation tax of 19.0% (2021: 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.

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 (2021: £2.0m) has been recognised in respect of uncertain tax positions.

The net charge of £2.6m (2021: £2.9m) 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. The amounts also include historic tax balances written off, as explained in note 5.

9 Taxation continued

(b) Recognised in the cash flow statement

The cash flow statement shows that no tax was received during the year (2021: £11.2m).

(c) Recognised in the statement of comprehensive income

	2022 £m	2021 £m
Deferred tax charge/(credit) (including effect of change in tax rate)		
Fair value movements on cash flow hedging instruments	**(0.2)**	(0.3)
Actuarial gains/(losses) on defined benefit pension schemes	**34.7**	(4.8)
Total tax charge/(credit) in the statement of comprehensive income	**34.5**	(5.1)

The deferred tax movements on the defined benefit pension scheme comprised £25.9m charge (2021: £5.9m credit) on current year actuarial movements and £8.8m charge (2021: £1.1m) 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% (2021: 25.0%), 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 19.0% has been calculated as £3.0m (2021: £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 17.

(e) Tax losses

At the balance sheet date, the Group has unused tax losses of £639.4m (2021: £659.9m) available for offset against future profits. A deferred tax asset has been recognised on £430.1m (2021: £452.3m) 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 £20.7m was included in operating profit during the year (2021: £13.3m). Included in the corporation tax asset at 30 June 2022 were RDEC receivables of £12.0m (2021: £12.4m).

10 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 (2021: £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.

11 Earnings per share

(a) Reconciliation of earnings used in calculating earnings per share

Profit attributable to the ordinary equity holders of the Company used in calculating basic earnings per share.

	Note	2022 £m	2021 £m
Continuing operations			
Profit for the year from continuing operations		**12.7**	23.0
Less: non-controlling interest share		**–**	1.3
Profit (after tax and minority interests), being net gains attributable to equity holders of the parent (A)		**12.7**	24.3
Adjusting items (excluding tax)	5	**78.2**	59.8
Tax impact of adjusting items	5	**(16.3)**	(31.7)
Adjusted profit after tax from continuing operations (B)		**74.6**	52.4
Discontinued operations			
Loss (after tax and non-controlling interests), being net loss attributable to equity holders of the parent (C)		**–**	(24.6)

(b) Weighted average number of shares used as the denominator

	2022 million	2021 million
Weighted average number of shares used as the denominator in calculating basic earnings per share (D)	**443.3**	210.3
Adjustments for calculation of diluted earnings per share		
Impact of share options	**11.8**	2.0
Weighted average number of shares used as the denominator in calculating diluted earnings per share (E)	**455.1**	212.3

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 27.

(c) Basic earnings per share

	2022 pence	2021 pence
From continuing operations attributable to the ordinary equity holders of the company (A/D)	**2.9**	11.6
From discontinued operations (C/D)	**–**	(11.7)
Total basic earnings per share attributable to the ordinary equity holders of the company	**2.9**	(0.1)
Adjusted from continuing operations attributable to the ordinary equity holders of the company (B/D)	**16.8**	25.0

(d) Diluted earnings per share

	2022 pence	2021 pence
From continuing operations attributable to the ordinary equity holders of the company (A/E)	**2.8**	11.4
From discontinued operations (C/E)	**–**	(11.5)
Total diluted earnings per share attributable to the ordinary equity holders of the company	**2.8**	(0.1)
Adjusted from continuing operations attributable to the ordinary equity holders of the company (B/E)	**16.4**	24.6

12 Intangible assets

	Goodwill £m	Intangible contract rights £m	Computer software[1] £m	Total £m
Cost				
At 1 July 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
Prior year reclassification[2]	**–**	**–**	**4.5**	**4.5**
At 1 July 2021	**538.8**	**259.4**	**132.8**	**931.0**
Additions	**–**	**–**	**0.7**	**0.7**
Disposals	**–**	**(7.2)**	**(0.9)**	**(8.1)**
At 30 June 2022	**538.8**	**252.2**	**132.6**	**923.6**
Accumulated amortisation and impairment				
At 1 July 2020	(2.1)	(134.7)	(66.2)	(203.0)
Charge for the year	–	(21.0)	(8.3)	(29.3)
Impairment reversal	–	–	2.4	2.4
Disposals	–	–	0.6	0.6
At 30 June 2021	(2.1)	(155.7)	(71.5)	(229.3)
Prior year reclassification[2]	**–**	**–**	**(4.5)**	**(4.5)**
At 1 July 2021	**(2.1)**	**(155.7)**	**(76.0)**	**(233.8)**
Charge for the year	**–**	**(19.7)**	**(6.0)**	**(25.7)**
Disposals	**–**	**7.2**	**–**	**7.2**
Impairment	**–**	**–**	**(2.2)**	**(2.2)**
At 30 June 2022	**(2.1)**	**(168.2)**	**(84.2)**	**(254.5)**
Net book value				
At 30 June 2022	**536.7**	**84.0**	**48.4**	**669.1**
At 30 June 2021	536.7	103.7	56.8	697.2

1 Computer software mainly relates to the Group's ERP software and is being amortised.
2 Prior year reclassification amends fully depreciated software disposals which were overstated in previous reporting periods. There was no impact on the consolidated balance sheet.

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 £nil (2021: £7.2m). Net book value £nil (2021: £nil).
- Stewart Milne – Cost £1.0m (2021: £1.0m). Net book value £nil (2021: £0.1m).
- May Gurney Integrated Services plc – Cost £106.8m (2021: £106.8m). Net book value £37.7m (2021: £45.4m).
- MRBL Limited (Mouchel Group) – Cost £127.1m (2021: £127.1m). Net book value £45.0m (2021: £56.7m).
- McNicholas Construction (Holdings) Limited – Cost £12.1m (2021: £12.1m). Net book value £nil (2021: £0.2m).
- Kier Education Services Limited – Cost £2.8m (2021: £2.8m). Net book value £nil (2021: £nil).
- Certain business and assets of Babcock Civil Infrastructure Limited – Cost £1.6m (2021: £1.6m). Net book value £1.3m (2021: £1.3m)
- Solum Regeneration LLP joint venture – Cost £0.4m (2021: £0.4m). Net book value £nil (2021: £nil).
- Watford Health Campus LLP joint venture – Cost £0.4m (2021: £0.4m). Net book value £nil (2021: £nil).

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.

Carrying amounts of goodwill and intangible contract rights by CGU

	2022			2021		
	Goodwill £m	Intangible contract rights £m	Total £m	Goodwill £m	Intangible contract rights £m	Total £m
Infrastructure Services	**516.3**	**82.7**	**599.0**	516.3	102.2	618.5
Construction	**20.4**	**1.3**	**21.7**	20.4	1.5	21.9
	536.7	**84.0**	**620.7**	536.7	103.7	640.4

For impairment testing purposes, goodwill has been allocated to the above two CGUs, being the lowest level at which management monitors goodwill. There is no goodwill attributed to the Property CGU. 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.

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. 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 9.0% (2021: 9.1%).

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.

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. Based on the value in use calculation, these assumptions detailed below derived a recoverable amount for the Infrastructure Services CGU that is £153.0m (2021: £117.0m) above the carrying value of CGU assets, an increase of £36.0m from the prior year.

The pre-tax discount rate used is 11.1% (2021: 11.2%). An increase in discount rate of 2.2% (2021: 1.3%) would eliminate headroom. A 0.5% increase in discount rate would reduce headroom by £41.3m (2021: £49.8m).

A terminal revenue growth rate of 2.0% (2021: 2.0%) has been applied into perpetuity. This would need to reduce by 2.3% (2021: 1.5%) to eliminate headroom. A 0.5% reduction would reduce headroom by £41.7m (2021: £42.8m).

Forecast revenue growth rates from FY23 to FY25 range from 4.1% to 7.7% (2021: FY22 to FY24 range from 2.3% to 31.8% which included, in particular, the impact of the Group's HS2 contract). A reduction of 5.6% (2021: 5.1%) 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 £18.4m (2021: £12.0m).

A fixed operating margin of 5.0%, consistent with the margin in FY25, has been applied into perpetuity (2021: 4.4%). A reduction of 0.9% (2021: 0.7%) in margin would be required to eliminate headroom. A 0.5% reduction in operating margin would reduce headroom by £87.0m (2021: £87.3m).

Forecast operating margins from FY23 to FY25 range from 5.0% to 5.3% (2021: FY22 to FY24 4.4%). A reduction of 0.8% (2021: 2.3%) in operating margin would be required to eliminate headroom. A 0.5% reduction in margins would result in a reduction in headroom by £84.2m (2021: £25.0m).

In terms of the possible impacts of climate change, the two key assumptions that could be sensitive to this are the growth rate and discount rates noted above. If climate change has a negative impact on revenues and/or the operating costs of the Group, there could be a potential impact on the discounted cash flow growth rates used within the valuation model. Lower future growth rates would reduce the level of the discounted cash flow valuation and hence the amount of headroom available to the Group above an impairment trigger. At present, the material short- to medium-term risks presented by possible climate change impacts are considered to be factored into the growth and discount rates where they are known and can be quantified. Using the current assumptions, no reasonably foreseeable change in the assumptions used within the value-in-use calculations would cause an impairment. Therefore, at present, changes in the long-term assumptions due to the impact of climate change would also not be expected to trigger an impairment.

13 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Mining asset[3] £m	Total £m
Cost				
At 1 July 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
Prior year reclassification[2]	**–**	**15.7**	**–**	**15.7**
At 1 July 2021	**32.3**	**57.4**	**4.8**	**94.5**
Additions	**0.3**	**5.7**	**–**	**6.0**
Disposals	**(5.3)**	**(9.8)**	**–**	**(15.1)**
Transfers[1]	**(2.4)**	**–**	**–**	**(2.4)**
Currency realignment	**–**	**0.7**	**–**	**0.7**
At 30 June 2022	**24.9**	**54.0**	**4.8**	**83.7**
Accumulated depreciation and impairment				
At 1 July 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)
Prior year reclassification[2]	**–**	**(15.7)**	**–**	**(15.7)**
At 1 July 2021	**(9.2)**	**(37.2)**	**(4.8)**	**(51.2)**
Charge for the year	**(0.8)**	**(5.8)**	**–**	**(6.6)**
Impairment	**–**	**(4.1)**	**–**	**(4.1)**
Disposals	**2.0**	**9.0**	**–**	**11.0**
Transfers[1]	**0.4**	**–**	**–**	**0.4**
Currency realignment	**–**	**(0.5)**	**–**	**(0.5)**
At 30 June 2022	**(7.6)**	**(38.6)**	**(4.8)**	**(51.0)**
Net book value				
At 30 June 2022	**17.3**	**15.4**	**–**	**32.7**
At 30 June 2021	23.1	20.2	–	43.3

1 Includes transfers between asset classes, assets held for sale and intangible assets as follows:
– Net book value of land and buildings transferred to investment properties was £2.0m (2021: £nil), from assets held for sale was £nil (2021: £2.0m), and to plant and equipment was £nil (2021: £2.0m).
– Net book value of intangible assets transferred from plant and equipment was £nil (2021: £0.9m).
– Net book value of plant and equipment transferred from assets held for sale was £nil (2021: £4.7m).

2 The prior year reclassification amends fully depreciated plant and equipment disposals which were overstated in previous reporting periods. There was no impact on the consolidated balance sheet.

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.

14 Investment properties
(a) Reconciliation of carrying amount

	Owned assets £m	Right-of-use assets £m	Total £m
At 1 July 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
Transfers	**2.0**	**6.1**	**8.1**
Additions	–	**2.5**	**2.5**
Fair value gain/(loss) recognised in administrative expenses	**2.7**	**(2.5)**	**0.2**
At 30 June 2022	**13.0**	**47.4**	**60.4**

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 properties held as right-of-use assets, 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 2022:

	2022 £m	2021 £m
Rental income from operating leases	**2.4**	0.8
Direct operating expenses for property that generated rental income	**(1.4)**	(1.2)
Direct operating expenses for property that did not generate rental income	**(0.6)**	(0.6)
Fair value adjustment	**0.2**	(0.3)
Total gain/(loss) recognised in the income statement	**0.6**	(1.3)

The profit or 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. Some of the leases include a tenant option to renew the lease for a further period. 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:

	2022 £m	2021 £m
Less than one year	**2.8**	1.5
One to two years	**3.0**	1.5
Two to three years	**2.3**	1.7
Three to four years	**2.1**	1.5
Four to five years	**1.3**	1.4
Over five years	**1.1**	2.3
Total	**12.6**	9.9

14 Investment properties continued

d) Measurement of fair values

The fair value of the owned investment property was determined as at 30 June 2022 by external, independent property valuers, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. 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 29), based on the inputs to the valuation techniques 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 2022, using the following inputs: – Expected market rental growth of 0% (2021: 0%); – Occupancy rate average of 95% (2021: 95%); – Void periods of 24 months to 36 months (2021: 24 months to 36 months); and – Rent-free periods of 12 months on a 5-year lease (2021: 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 of 1% to 2% (2021: 1%); – Occupancy rate average of 93% to 99% (2021: average of 97%); – Rent-free/void periods of 6–9 months at the end of each tenancy (2021: 6 months); and – Risk-adjusted discount rate of 4.2% (2021: 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).

15 Investments in and loans to joint ventures

(a) Movements in year

	2022 £m	2021 £m
Investments in joint ventures		
At 1 July	**98.9**	105.6
Additions	**16.8**	9.2
Loan repayments	**(7.5)**	(7.7)
Share of:		
Operating profit/(loss)	**26.4**	(0.1)
Finance costs	**0.4**	(1.6)
Taxation	**(0.2)**	1.4
Post-tax results of joint ventures – continuing operations	**26.6**	(0.3)
Dividends received	**(32.5)**	(6.3)
Return of equity	**(20.0)**	(1.6)
At 30 June	**82.3**	98.9

(b) Analysis of investments in and loans to joint ventures

	2022 £m	2021 £m
Non-current assets		
Investment properties	**42.5**	42.5
Other non-current assets	**–**	0.6
Non-current assets	**42.5**	43.1
Current assets		
Cash and trade receivables	**130.4**	157.9
Current assets	**130.4**	157.9
Total assets	**172.9**	201.0
Current liabilities		
Trade and other payables	**(19.8)**	(17.7)
Current liabilities	**(19.8)**	(17.7)
Non-current liabilities		
Borrowings	**(70.7)**	(83.7)
Deferred tax liabilities	**(0.1)**	(0.1)
Other non-current liabilities	**–**	(0.6)
Non-current liabilities	**(70.8)**	(84.4)
Total liabilities	**(90.6)**	(102.1)
At 30 June	**82.3**	98.9

15 Investments in and loans to joint ventures continued

(c) Interests in joint ventures

Set out below are the joint ventures of the Group as at 30 June 2022 which, in the opinion of the Directors, are material to the Group. See note 32 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 2022**	% of ownership interest/voting rights 2021	Nature of relationship	**Carrying amount 2022 £m**	Carrying amount 2021 £m
Kier Trade City[1]	England and Wales	**90% / 50%**	90% / 50%	Property division	**6.8**	11.1
Solum Regeneration[2]	England and Wales	**50% / 50%**	50% / 50%	Property division	**21.3**	31.7
Kier Cornwall Street[3]	England and Wales	**90% / 50%**	90% / 50%	Property division	**7.2**	12.5
Kier (Newcastle)[4]	England and Wales	**75% / 50%**	75% / 50%	Property division	**8.4**	8.2
Kier (Southampton)[5]	England and Wales	**75% / 50%**	75% / 50%	Property division	**11.3**	10.8
Watford Health Campus[6]	England and Wales	**50% / 50%**	50% / 50%	Property division	**9.9**	9.2
Kier Richmond[7]	England and Wales	**90% / 50%**	90% / 50%	Property division	**7.7**	7.7
Winsford[8]	England and Wales	**50% / 50%**	50% / 50%	Property division	**0.4**	2.3
Kier Maidenhead[9]	England and Wales	**90% / 50%**	90% / 50%	Property division	**0.7**	3.2
Kier PGIM Logistics[10]	England and Wales	**25.5% / 25.5%**	– / –	Property division	**7.4**	–
Immaterial joint ventures					**1.2**	2.2
					82.3	98.9

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.
8 Winsford consists of Winsford Holdings 1 LLP, Winsford Holdings 2 LLP and Winsford Devco LLP.
9 Kier Maidenhead consists of Kier Maidenhead Holdings 1 LLP, Kier Maidenhead Holdings 2 LLP and Kier Maidenhead LLP.
10 Kier PGIM Logistics consists of Kier PGIM Logistics Holdco Ltd, Kier PGIM Logistics (Bognor) Ltd, Kier PGIM Logistics (Bracknell) Ltd, Kier PGIM Logistics (Knowsley) Ltd, Kier PGIM Logistics (St. Albans) Ltd, Kier PGIM Logistics Propco 4 Ltd, Kier PGIM Logistics Propco 5 Ltd, Kier PGIM Logistics Propco 7 Ltd and Kier PGIM Logistics Propco 8 Ltd.

(d) Borrowing facilities and guarantees to joint ventures

The Group has provided guarantees to support borrowing facilities of joint ventures as follows:

			2022			2021
	Borrowing facility £m	**Guarantees £m**	**Drawn at 30 June £m**	Borrowing facility £m	Guarantees £m	Drawn at 30 June £m
Kier Trade City LLP	**17.8**	**3.1**	**7.6**	27.4	6.5	21.6
Kier PGIM Logistics (Bognor) Ltd	**27.0**	**1.4**	**2.8**	–	–	–
	44.8	**4.5**	**10.4**	27.4	6.5	21.6

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 32.

(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)	
Summarised balance sheet	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Current assets								
Cash and cash equivalents	**0.3**	–	**0.6**	1.0	**1.8**	3.2	**0.7**	0.4
Other current assets	**16.0**	35.3	**51.7**	65.8	**34.4**	37.6	**2.8**	3.1
Current assets	**16.3**	35.3	**52.3**	66.8	**36.2**	40.8	**3.5**	3.5
Non-current assets	**–**	–	**–**	–	**–**	–	**25.1**	25.1
Current liabilities								
Other current liabilities	**(1.3)**	(1.4)	**(9.7)**	(3.4)	**(3.2)**	(1.9)	**(5.2)**	(5.2)
Total current liabilities	**(1.3)**	(1.4)	**(9.7)**	(3.4)	**(3.2)**	(1.9)	**(5.2)**	(5.2)
Non-current liabilities								
Financial liabilities (excluding trade payables)	**(7.5)**	(21.6)	**–**	–	**(25.0)**	(25.0)	**(12.1)**	(12.4)
Other non-current liabilities	**–**	–	**–**	–	**–**	–	**(0.1)**	(0.1)
Total non-current liabilities	**(7.5)**	(21.6)	**–**	–	**(25.0)**	(25.0)	**(12.2)**	(12.5)
Net assets	**7.5**	12.3	**42.6**	63.4	**8.0**	13.9	**11.2**	10.9
Reconciliation to carrying amounts:								
Net assets at 1 July	**12.3**	20.2	**63.4**	66.3	**13.9**	15.4	**10.9**	9.9
Capital introduced	**4.5**	–	**9.4**	4.9	**–**	–	**–**	1.3
Profit/(loss) for the year	**20.3**	5.3	**(2.0)**	(7.5)	**(5.9)**	(1.5)	**0.3**	(0.3)
Loan repayments	**(8.3)**	(8.5)	**–**	–	**–**	–	**–**	–
Return of equity	**–**	–	**(27.8)**	–	**–**	–	**–**	–
Dividends paid	**(21.3)**	(4.7)	**(0.4)**	(0.3)	**–**	–	**–**	–
Net assets at 30 June	**7.5**	12.3	**42.6**	63.4	**8.0**	13.9	**11.2**	10.9
Group's share (%)	**90%**	90%	**50%**	50%	**90%**	90%	**75%**	75%
Investment in joint venture	**6.8**	11.1	**21.3**	31.7	**7.2**	12.5	**8.4**	8.2
Summarised income statement								
Revenue	**50.1**	20.8	**35.3**	49.5	**0.6**	0.8	**1.9**	1.3
Finance income	**–**	–	**–**	–	**0.4**	–	**–**	–
Finance costs	**–**	–	**–**	–	**–**	(1.4)	**–**	–
Taxation	**–**	–	**–**	–	**–**	–	**(0.1)**	–
Profit/(loss) for the year from continuing operations	**20.3**	5.3	**(2.0)**	(7.5)	**(5.9)**	(1.5)	**0.3**	(0.3)
Profit/(loss) for the year	**20.3**	5.3	**(2.0)**	(7.5)	**(5.9)**	(1.5)	**0.3**	(0.3)
Total comprehensive income/(expense)	**20.3**	5.3	**(2.0)**	(7.5)	**(5.9)**	(1.5)	**0.3**	(0.3)
Dividends received from joint ventures	**19.2**	4.2	**0.2**	0.1	**–**	–	**–**	–

15 Investments in and loans to joint ventures continued

	Kier (Southampton)		Watford Health Campus		Kier Richmond	
Summarised balance sheet	**2022 £m**	2021 £m	**2022 £m**	2021 £m	**2022 £m**	2021 £m
Current assets						
Cash and cash equivalents	**1.1**	1.1	**0.4**	0.6	**0.4**	–
Other current assets	**2.7**	3.2	**36.7**	35.8	**15.6**	19.4
Current assets	**3.8**	4.3	**37.1**	36.4	**16.0**	19.4
Non-current assets	**31.5**	31.5	**–**	–	**–**	–
Current liabilities						
Other current liabilities	**(2.4)**	(3.5)	**(7.2)**	(9.0)	**–**	–
Total current liabilities	**(2.4)**	(3.5)	**(7.2)**	(9.0)	**–**	–
Non-current liabilities						
Financial liabilities (excluding trade payables)	**(17.9)**	(17.8)	**(10.2)**	(9.0)	**(7.5)**	(10.8)
Other non-current liabilities	**–**	–	**–**	–	**–**	–
Total non-current liabilities	**(17.9)**	(17.8)	**(10.2)**	(9.0)	**(7.5)**	(10.8)
Net assets	**15.0**	14.5	**19.7**	18.4	**8.5**	8.6
Reconciliation to carrying amounts:						
Net assets at 1 July	**14.5**	11.4	**18.4**	20.1	**8.6**	7.9
Capital introduced	**–**	2.9	**1.1**	0.8	**–**	–
Profit/(loss) for the year	**0.5**	0.2	**2.8**	1.6	**(0.1)**	0.7
Return of equity	**–**	–	**–**	(3.4)	**–**	–
Dividends paid	**–**	–	**(2.6)**	(0.7)	**–**	–
Net assets at 30 June	**15.0**	14.5	**19.7**	18.4	**8.5**	8.6
Group's share (%)	**75%**	75%	**50%**	50%	**90%**	90%
Investment in joint venture	**11.3**	10.8	**9.9**	9.2	**7.7**	7.7
Summarised income statement						
Revenue	**2.7**	1.5	**19.0**	18.6	**4.3**	1.1
Depreciation and amortisation	**(0.1)**	(0.1)	**–**	–	**–**	–
Finance costs	**–**	(0.5)	**–**	–	**–**	–
Taxation	**(0.1)**	0.5	**–**	–	**–**	(0.1)
Profit/(loss) for the year from continuing operations	**0.5**	0.2	**2.8**	1.6	**(0.1)**	0.7
Profit/(loss) for the year	**0.5**	0.2	**2.8**	1.6	**(0.1)**	0.7
Total comprehensive income/(expense)	**0.5**	0.2	**2.8**	1.6	**(0.1)**	0.7
Dividends received from joint ventures	**–**	–	**1.3**	0.4	**–**	–

Summarised balance sheet	Winsford 2022 £m	Winsford 2021 £m	Kier Maidenhead 2022 £m	Kier Maidenhead 2021 £m	Kier PGIM Logistics 2022 £m	Kier PGIM Logistics 2021 £m
Current assets						
Cash and cash equivalents	**0.4**	0.1	**–**	–	**4.0**	–
Other current assets	**0.7**	8.0	**1.0**	8.8	**54.2**	–
Current assets	**1.1**	8.1	**1.0**	8.8	**58.2**	–
Current liabilities						
Other current liabilities	**(0.4)**	(1.3)	**(0.2)**	(1.0)	**(1.5)**	–
Total current liabilities	**(0.4)**	(1.3)	**(0.2)**	(1.0)	**(1.5)**	–
Non-current liabilities						
Financial liabilities (excluding trade payables)	**–**	(2.1)	**–**	(4.3)	**(27.7)**	–
Total non-current liabilities	**–**	(2.1)	**–**	(4.3)	**(27.7)**	–
Net assets	**0.7**	4.7	**0.8**	3.5	**29.0**	–
Reconciliation to carrying amounts:						
Net assets at 1 July	**4.7**	4.7	**3.5**	–	**–**	–
Capital introduced	**–**	–	**–**	3.5	**29.1**	–
Profit/(loss) for the year	**11.1**	–	**8.3**	–	**(0.1)**	–
Return of equity	**(4.8)**	–	**(3.6)**	–	**–**	–
Dividends paid	**(10.3)**	–	**(7.4)**	–	**–**	–
Net assets at 30 June	**0.7**	4.7	**0.8**	3.5	**29.0**	–
Group's share (%)	**50%**	50%	**90%**	90%	**25.5%**	–
Investment in joint venture	**0.4**	2.3	**0.7**	3.2	**7.4**	–
Summarised income statement						
Revenue	**22.7**	0.1	**19.6**	–	**–**	–
Profit/(loss) for the year from continuing operations	**11.1**	–	**8.3**	–	**(0.1)**	–
Profit/(loss) for the year	**11.1**	–	**8.3**	–	**(0.1)**	–
Total comprehensive income/(expense)	**11.1**	–	**8.3**	–	**(0.1)**	–
Dividends received from joint ventures	**5.1**	–	**6.6**	–	**–**	–

(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.

	2022 £m	2021 £m
Aggregate carrying amount of individually immaterial joint ventures	**1.2**	2.2
Dividends received from individually immaterial joint ventures	**0.1**	1.6
Aggregate amounts of the Group's share of:		
Loss from continuing operations	**(0.3)**	(1.3)
Total comprehensive expense	**(0.3)**	(1.3)

16 Capitalised mobilisation costs

	2022 £m	2021 £m
At 1 July	**3.8**	1.9
Additions	**10.2**	3.5
Amortisation	**(2.4)**	(1.6)
At 30 June	**11.6**	3.8

Mobilisation costs have increased during the year due to a number of successful framework agreement bids, predominantly within the construction business.

17 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 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 1 July 2021	(23.6)	36.3	29.3	(12.6)	108.6	138.0
Credited/(charged) to income statement – continuing	**3.8**	**(1.5)**	**8.0**	**(2.0)**	**(3.0)**	**5.3**
Credited/(charged) directly to comprehensive income	**–**	**–**	**0.2**	**(34.7)**	**–**	**(34.5)**
At 30 June 2022	**(19.8)**	**34.8**	**37.5**	**(49.3)**	**105.6**	**108.8**

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Total	
	2022 £m	2021 £m	2022 £m	2021 £m	2022 £m	2021 £m
Property, plant and equipment	**34.8**	36.3	**–**	–	**34.8**	36.3
Intangible assets	**–**	–	**(19.8)**	(23.6)	**(19.8)**	(23.6)
Retirement benefit obligations	**–**	–	**(49.3)**	(12.6)	**(49.3)**	(12.6)
Other short-term timing differences	**37.5**	29.3	**–**	–	**37.5**	29.3
Tax losses	**105.6**	108.6	**–**	–	**105.6**	108.6
Total	**177.9**	174.2	**(69.1)**	(36.2)	**108.8**	138.0
Set-off tax	**(69.1)**	(36.2)	**69.1**	36.2	**–**	–
Net tax assets	**108.8**	138.0	**–**	–	**108.8**	138.0

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 12.

The following evidence has been considered when assessing whether these forecasts are achievable and realistic:
- The business traded in line with Board expectations in 2022;
- The Group has substantially completed its restructuring activities and is focusing on the achievement of the medium-term growth strategy; 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 10 years.

18 Contract assets and liabilities

(a) Current contract assets

	2022 £m	2021 £m
At 1 July	**335.7**	249.7
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)
Transferred to receivables	**(313.3)**	(223.8)
Balance remaining in relation to contract assets at the start of the year	**22.4**	16.9
Increase related to services provided in the year	**343.9**	318.8
At 30 June	**366.3**	335.7

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 £30.6m in the year due to the timing of invoicing, the effect of new contracts and significant increases in volumes on HS2.

(b) Non-current contract assets

	2022 £m	2021 £m
At 1 July	**30.7**	28.8
Increase related to services provided in the year	**0.5**	1.9
At 30 June	**31.2**	30.7

(c) Current contract liabilities

	2022 £m	2021 £m
At 1 July	**(59.9)**	(108.7)
Revenue recognised in the year that was included in contract liabilities at the beginning of the year	**50.5**	105.2
Contract liabilities repaid	**–**	1.4
Balance remaining in relation to contract liabilities at the start of the year	**(9.4)**	(2.1)
Increase due to cash received or invoices raised in the year for performance obligations not recognised in revenue	**(57.9)**	(57.8)
At 30 June	**(67.3)**	(59.9)

19 Trade and other receivables

	2022 £m	2021 £m
Current:		
Trade receivables	**72.2**	50.7
Construction contract retentions	**72.4**	84.8
Amounts receivable from joint ventures	**4.0**	1.7
Other receivables	**15.8**	3.5
Prepayments	**30.2**	42.9
Accrued income	**8.3**	8.0
Other taxation and social security	**–**	11.5
	202.9	203.1
Non-current:		
Construction contract retentions	**17.0**	24.1
	17.0	24.1

Construction contract retentions are amounts withheld by the customer until they are satisfied with the quality of the work undertaken.

20 Inventories

	2022 £m	2021 £m
Raw materials and consumables	**13.8**	14.9
Land and work in progress held for development	**43.0**	39.1
Other work in progress	**–**	0.7
	56.8	54.7

As at 30 June 2022, £1.5m of provisions are held against inventory relating to land and work in progress for development (2021: £2.8m).

21 Net cash

	2022 £m	2021 £m
Cash and cash equivalents – bank balances and cash in hand	**297.7**	391.2
Borrowings due within one year	**(40.5)**	(38.2)
Borrowings due after one year	**(266.5)**	(362.3)
Impact of cross-currency hedging	**12.2**	12.3
Net cash	**2.9**	3.0

Average month-end net debt was £216.1m (2021: £431.9m). Net cash excludes lease liabilities.

Cash and cash equivalents are subject to Group-wide cash pooling arrangements. On a gross basis, cash and cash equivalents were £1,546.4m (2021: £1,411.7m) and overdrafts were £1,248.7m (2021: £1,020.5m).

Cash and cash equivalents include £74.4m (2021: £75.1m) being the Group's share of cash and cash equivalents held by joint operations and £39.9m (2021: £43.2m) of bank balances that are not part of the Group-wide cash pooling arrangement.

Information on borrowings is detailed in note 29.

(a) Reconciliation of working capital between the consolidated balance sheet and consolidated cash flow statement

	2022					2021				
	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	**54.7**	**227.2**	**366.4**	**(1,133.0)**	**(47.8)**	60.0	269.3	278.5	(1,004.0)	(72.3)
30 June balance sheet	**56.8**	**219.9**	**397.5**	**(1,099.8)**	**(48.0)**	54.7	227.2	366.4	(1,133.0)	(47.8)
Movement per balance sheet	**2.1**	**(7.3)**	**31.1**	**33.2**	**(0.2)**	(5.3)	(42.1)	87.9	(129.0)	24.5
Transfers to and from assets held for sale	**–**	**–**	**–**	**–**	**–**	1.4	(1.0)	(1.4)	(0.5)	–
Forward funding interest	**–**	**–**	**0.5**	**–**	**–**	–	–	8.8	–	–
Disposal of subsidiary	**–**	**–**	**–**	**–**	**–**	–	–	–	15.4	6.5
Discount unwind[1]	**–**	**–**	**–**	**0.7**	**–**	–	–	–	0.8	0.3
Unpaid adviser fees in respect of the equity raise[2]	**–**	**–**	**–**	**(6.1)**	**–**	–	–	–	6.1	–
Other	**–**	**–**	**–**	**(15.4)**	**–**	–	0.1	–	6.5	–
Movement per cash flow statement	**2.1**	**(7.3)**	**31.6**	**12.4**	**(0.2)**	(3.9)	(43.0)	95.3	(100.7)	31.3

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 disclosed within the issue of shares net of transaction costs, on the cash flow statement.

(b) Reconciliation of movements in net cash/(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 cash/(borrowings) as at 1 July 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 cash/(borrowings) as at 30 June 2021	391.2	(38.2)	(362.3)	12.3	3.0
Cash flows	**(97.4)**	**38.2**	**63.6**	**–**	**4.4**
Transfers	**–**	**(40.5)**	**40.5**	**–**	**–**
Foreign exchange movements	**3.9**	**–**	**(8.3)**	**(0.1)**	**(4.5)**
Net cash/(borrowings) as at 30 June 2022	**297.7**	**(40.5)**	**(266.5)**	**12.2**	**2.9**

(c) Free cash flow

	Note	**2022 £m**	2021 £m
Net cash/(debt) at 1 July	21	**3.0**	(310.3)
Net cash at 30 June	21	**2.9**	3.0
Decrease/(increase) in net cash/(debt)		**(0.1)**	313.3
Adjusted for:			
Payments in respect of adjusting items	5	**41.2**	72.1
Pension deficit payments and fees	8	**15.0**	37.0
Acquisitions and disposals	22	**–**	(120.8)
Equity raise[1]	26	**6.1**	(224.8)
Discontinued operations	22	**–**	11.4
Purchase of own shares		**7.0**	–
Other items		**(14.6)**	4.4
Free cash flow		**54.6**	92.6

1 The £6.1m settled during the year relates to the payment of accrued costs previously recorded in equity.

See glossary of alternative performance measures on page 227.

22 Disposals and discontinued operations

(a) Disposals

The Group completed the disposal of Kier Living Limited in the prior 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 Limited 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 Kier Living Limited which represent the costs of completing the outstanding work. In addition, a piece of land owned by Kier Limited was transferred to Kier Living Limited on disposal, generating a Stamp Duty Land Tax liability.

(b) Discontinued operations

The results for Kier Living Limited in the prior year were classified as discontinued up to its disposal.

	2021 £m
Results of discontinued operations	
Revenue	98.3
Share of post-tax results of joint ventures	12.2
Operating costs	(105.2)
Operating profit	5.3
Finance costs	(5.1)
Profit before tax and adjusting items	0.2
Tax	(0.5)
Loss for the year before adjusting items	(0.3)
Adjusting items net of tax (note 5)	(24.3)
Loss from discontinued operations after tax	(24.6)

	2021 £m
Cash flows from discontinued operations	
Operating cash outflows	(24.9)
Investing cash inflows	8.4
Financing cash inflows[1]	74.6
Total cash flows including intercompany transactions	58.1
Intercompany cash flows	(69.5)
Total cash flows	(11.4)

1 The cash flows include intercompany transactions, primarily the Group repaying Kier Living Limited's overdraft of £72.7m prior to its disposal.

23 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 £98.9m (2021: £86.1m). 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 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
Additions	**2.8**	**13.2**	**17.1**	**33.1**
Depreciation	**(7.9)**	**(11.8)**	**(10.3)**	**(30.0)**
Impairment[1]	**(5.2)**	**–**	**–**	**(5.2)**
Transferred to investment properties[1]	**(6.1)**	**–**	**–**	**(6.1)**
Disposals	**(0.9)**	**(1.7)**	**(5.1)**	**(7.7)**
At 30 June 2022	**47.3**	**19.3**	**14.0**	**80.6**

1 During the year ended 30 June 2022, the Group vacated its property in Fountain Street, Manchester, which resulted in an impairment of the associated right-of-use asset. As the property was no longer occupied by the Group and was being held for the purpose of earning rental income, the asset was reclassified as an investment property.

(c) Lease liabilities

	2022 £m	2021 £m
Current	**25.9**	27.4
Non-current	**131.7**	136.4
	157.6	163.8

The maturity profile of the contractual cash flows associated with the lease liabilities is presented in note 29. The interest expense in respect of lease liabilities is included within finance costs in the income statement and is disclosed in note 6.

(d) Amounts recognised in the statement of cash flows

	2022 £m	2021 £m
Principal elements of lease payments[1]	**33.8**	39.6
Interest paid[1]	**6.5**	6.7
Payments for short-term leases and leases of low-value assets[2]	**98.9**	86.1
Total cash outflow for leases	**139.2**	132.4

1 Included within cash flows from financing activities within the statement of cash flows.
2 Included within operating cash flows within the statement of cash flows.

24 Trade and other payables

	2022 £m	2021 £m
Current:		
Trade payables[1]	**354.2**	330.3
Sub-contract retentions	**32.7**	39.1
Other taxation and social security[2]	**122.1**	144.2
Other payables	**28.9**	47.3
Accruals	**527.4**	531.8
Deferred income	**0.4**	0.4
	1,065.7	1,093.1
Non-current:		
Trade payables	**11.0**	14.1
Sub-contract retentions	**23.1**	25.8
	34.1	39.9

1 Included within the trade payables balance is £49.8m (2021: £79.1m) relating to payments due to suppliers who are on bank-supported supply chain finance arrangements.
2 As at 30 June 2022, there was no remaining tax deferred under the Government's COVID-19 support schemes (2021: £20.8m).

25 Provisions

	Insurance claims £m	Restoration of mining sites £m	HSE regulatory £m	Onerous contracts £m	Redundancy and site closure £m	Warranty, rectification and other contractual obligations £m	Total £m
At 1 July 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
(Credited)/charged to income statement	**(3.4)**	**(0.5)**	**0.5**	**3.7**	**0.9**	**5.1**	**6.3**
Utilised	**–**	**(0.1)**	**–**	**(0.4)**	**(2.7)**	**(3.5)**	**(6.7)**
Unwinding of discount	**–**	**–**	**–**	**0.2**	**–**	**–**	**0.2**
Currency realignment	**–**	**–**	**–**	**–**	**0.4**	**–**	**0.4**
At 30 June 2022	**18.4**	**0.2**	**3.0**	**9.0**	**2.0**	**15.4**	**48.0**

Insurance provisions are held in the Group's insurance captive in respect of legal and other disputes in various Group companies.

Restoration of mining sites provisions 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 site closure 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. This includes provisions in respect of fire compliance and cladding.

It is anticipated that the amounts provided will be utilised as follows:

	2022 £m	2021 £m
Due within one year	**22.2**	14.9
Due after one year	**25.8**	32.9
	48.0	47.8

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.

26 Share capital and reserves

Share capital

The share capital of the Company comprises:

	2022		2021	
	Number	£m	Number	£m
Authorised, issued and fully paid ordinary shares of 1 pence each	**446,241,682**	**4.5**	446,165,699	4.5

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.

During the year, 75,983 shares were issued under the Sharesave Scheme (2021: none).

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. These costs were fully paid as at 30 June 2022 (2021: £6.1m unpaid).

Under the capital raise arrangements, 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 was 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

£134.8m of the merger reserve arose on the shares issued at a premium to acquire May Gurney on 8 July 2013. The movement in the prior year of £215.8m relates to the issue of new share capital as described above.

27 Share-based payments

The Group operates a number of share-based payment schemes for eligible employees as described below.

Sharesave Scheme

Options over the Company's ordinary shares at 30 June 2022 were as follows:

	Sharesave Scheme 1 November 2018	Sharesave Scheme 13 November 2019	Sharesave Scheme 15 February 2021	Sharesave Scheme 29 October 2021	Total
Number of awards outstanding at 30 June 2022					
Directors	**–**	**–**	**–**	**11,250**	**11,250**
Employees[1]	**3,080**	**4,370,088**	**8,100,909**	**6,964,535**	**19,438,612**
	3,080	**4,370,088**	**8,100,909**	**6,975,785**	**19,449,862**
Exercise price (pence)[1]	**647.2**	**86.4**	**56.5**	**96.0**	

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.

7,943,643 options were granted in the year (2021: 8,634,038) under the Sharesave Scheme, which will all be equity settled.

75,983 Sharesave Scheme options were exercised during the year (2021: no share options were exercised). The weighted average market price of Kier Group plc shares at the date of exercise of Sharesave Scheme options during the year was 103.0p (2021: no shares options were exercised).

Conditional Share Award Plan

There were no outstanding awards over the Company's ordinary shares at 30 June 2022.

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 (2021: nil).

650,951 awards vested under the CSAP in the year (2021: 515,093). In accordance with the rules of the scheme, a further 9,777 shares were provided to recipients of the vesting CSAP shares, equivalent to the dividends that would have been received during the vesting period (2021: 72,562). The market price of Kier Group plc shares at the date of exercise of the CSAP options during the year was 108.2p (2021: 47.3p).

Long-Term Incentive Plan

Awards over the Company's ordinary shares at 30 June 2022 were as follows:

	LTIP award 28 Oct 2019	LTIP award 16 March 2020	LTIP award 18 December 2020	LTIP award 28 October 2021	LTIP award 20 April 2022	Total
Number of awards outstanding at 30 June 2022						
Directors[1]	**2,040,447**	**–**	**2,095,166**	**2,313,430**	**–**	**6,449,043**
Employees[1]	**9,317,778**	**602,577**	**15,560,039**	**5,588,506**	**305,871**	**31,374,771**
	11,358,225	**602,577**	**17,655,205**	**7,901,936**	**305,871**	**37,823,814**
Exercise price (pence)	**nil**	**nil**	**nil**	**nil**	**nil**	

1 Where the options were granted before 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 (2021: nil).

8,570,392 options were granted in the year (2021: 17,856,246) 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:

	2022		2021	
	Number of shares	**Historic cost value £m**	Number of shares	Historic cost value £m
At 1 July	**708,965**	**2.6**	306,317	2.3
Acquired during the year	**7,942,521**	**7.5**	990,303	0.5
Issued in satisfaction of share scheme awards	**(650,951)**	**(2.0)**	(515,093)	(0.2)
Issued in satisfaction of dividend equivalents for share scheme awards	**(9,777)**	**–**	(72,562)	–
Issued in satisfaction of deferred bonus schemes	**(435,728)**	**(0.4)**	–	–
At 30 June	**7,555,030**	**7.7**	708,965	2.6

The market value of these shares at 30 June 2022 was £5.1m (2021: £0.9m).

The shares acquired by the trusts in the year at a cost of £7.5m (2021: £0.5m), net of cash received by the trusts in respect of the deferred bonus schemes of £0.5m (2021: nil) is reflected in the statement of changes in equity as a net purchase of own shares of £7.0m (2021: £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 114–134.

27 Share-based payments continued

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	13 November 2019	15 February 2021	29 October 2021
Share price at grant (pence)	924.0	86.5	77.5	106.8
Exercise price (pence) – at grant	770.0	101.0	66.0	96.0
Exercise price (pence) – adjusted for rights/share issues	647.2	86.4	56.5	96.0
Expected term (years)	3.3	3.3	3.3	3.3
Expected volatility	28.1%	68.5%	80.2%	82.7%
Dividend yield	7.3%	0.0%	0.0%	0.0%
Risk-free interest rate	0.8%	0.5%	0.0%	0.7%
Value per option (pence) – at grant	137.0	37.0	44.6	61.9
Value per option (pence) – adjusted for rights/share issues	115.2	31.7	38.1	61.9

Long-Term Incentive Plan

Date of grant	28 October 2019	28 October 2019 (Directors)	16 March 2020	18 December 2020	18 December 2020 (Directors)	28 October 2021	28 October 2021 (Directors)	20 April 2022
Share price at grant (pence)	116.0	116.0	80.0	81.0	81.0	108.4	108.4	80.8
Exercise price (pence)	nil	nil	nil	nil	nil	nil	nil	nil
Expected term (years)	3.0	3.0	3.0	3.0	3.0	3.0	3.0	2.5
Holding period (years)	n/a	2.0	n/a	n/a	2.0	n/a	2.0	n/a
Expected volatility	74.7%	85.5%	74.7%	90.7%	92.4%	83.2%	66.6%	83.2%
Risk-free interest rate	0.5%	0.5%	0.5%	0.0%	0.0%	0.7%	0.8%	0.7%
Value per option (pence) – at grant								
– Market condition (25%)	76.0	66.0	52.0	58.4	50.6	85.2	76.3	63.5
– Non-market condition (75%)	116.0	101.0	80.0	81.0	70.1	108.4	97.0	80.8
Value per option (pence) – adjusted for rights/share issues								
– Market condition (25%)	65.0	56.5	44.5	50.0	43.3	85.2	76.3	63.5
– Non-market condition (75%)	99.2	86.4	68.4	69.2	59.9	108.4	97.0	80.8

The value per option represents the fair value of the option less any consideration payable. The fair value of the proportion of the awards subject to performance conditions that are market conditions under IFRS 2 'Share-based Payments' (the TSR – total shareholder return element) incorporates an assessment of the number of shares that will vest.

The performance conditions linked to adjusted earnings per share, adjusted operating profit, the net debt to earnings before interest, tax, depreciation and amortisation ratio (Net Debt:EBITDA) and free cash flow, 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 term.

A charge of £8.6m relating to share-based payments has been recognised in the income statement as employee costs (2021: £7.0m). Included in other payables is an amount of £1.0m (2021: £1.0m) 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:

	2022		2021	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at 1 July	**47,929,960**	**23.9p**	20,446,809	46.9p
Granted	**16,514,035**	**46.2p**	26,490,284	21.5p
Lapsed or forfeited	**(6,443,385)**	**61.5p**	(5,429,098)	70.6p
Exercised	**(726,934)**	**7.5p**	(515,093)	–
Adjustment for share issue	**–**	**–**	6,937,058	–
Outstanding at 30 June	**57,273,676**	**26.3p**	47,929,960	23.9p
Exercisable at 30 June	**294,805**	**81.7p**	6,126	234.6p

The options outstanding at 30 June 2022 have a weighted average remaining contractual life of 1.43 years (2021: 2.08 years).

28 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 initially measured at fair value, based on the premium received from the joint venture or the differential in the interest rate of the borrowing including and excluding the guarantee. Subsequent to initial recognition, financial guarantee contracts are measured at the higher of the initial fair value measurement (adjusted for any income amounts recognised) and the amount determined in accordance with the expected credit loss model. Details of financial guarantees provided to support joint ventures are disclosed in note 15 (d). 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 2022, the Group had contingent assets of £3.2m (2021: £4.5m) 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.

Fire and cladding review

As disclosed in note 1 of the financial statements, the Group has undertaken a review of all of its current and legacy constructed buildings where it has used cladding solutions and continues to assess the action required in line with the latest updates to Government guidance, as it applies, to multi-storey and multi-occupied residential buildings. The buildings, including the cladding works, were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of completion.

We recognise that Government guidance on the retrospective review of building materials continues to evolve. In preparing the financial statements, currently available information has been considered, including the current best estimate of the extent and future costs of work required, based on the reviews and physical inspections undertaken.

Where an obligation has been established and a reliable estimate of the costs to rectify is available, a provision has been made (see note 25). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses or if Government legislation and regulation further evolves.

29 Financial instruments

The following table summarises the Group's financial instruments as at 30 June 2022:

	2022			2021		
	Financial assets at amortised cost £m	Financial liabilities at amortised cost £m	Derivatives £m	Financial assets at amortised cost £m	Financial liabilities at amortised cost £m	Derivatives £m
Financial assets						
Trade and other receivables (less prepayments)	**189.7**	**–**	**–**	184.3	–	–
Cash and cash equivalents	**297.7**	**–**	**–**	391.2	–	–
Equity loans provided to joint ventures	**105.4**	**–**	**–**	115.9	–	–
Other financial assets	**–**	**–**	**12.2**	–	–	13.4
Total	**592.8**	**–**	**12.2**	691.4	–	13.4
Financial liabilities						
Borrowings	**–**	**(307.0)**	**–**	–	(400.5)	–
Lease liabilities	**–**	**(157.6)**	**–**	–	(163.8)	–
Trade and other payables[1]	**–**	**(977.3)**	**–**	–	(988.4)	–
Total	**–**	**(1,441.9)**	**–**	–	(1,552.7)	–
Net	**592.8**	**(1,441.9)**	**12.2**	691.4	(1,552.7)	13.4

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 prior year, the Group took 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 represented the final steps in the completion of the strategic review whereby new medium-term financial targets were 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 21 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 of 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 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:

	2022 £m	2021 £m
Provision as at 1 July	**2.3**	4.2
Credited to the income statement	**(0.6)**	(1.3)
Charged to the income statement	**0.5**	–
Utilised in the year	**(0.1)**	(0.6)
Provision as at 30 June	**2.1**	2.3

There were £19.7m (2021: £21.5m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £8.2m (2021: £7.7m) had been received by the end of August 2022. There are no indications as at 30 June 2022 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 2022 that were overdue for payment was 28% (2021: 42%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Infrastructure Services	7 days (2021: 8 days)
Construction	13 days (2021: 10 days)
Property	4 days (2021: 34 days)

Overall, the Group considers that it is not exposed to significant credit risk.

Equity loans to joint ventures of £105.4m (2021: £115.9m) are considered under the general ECL model and have been compared to 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 and term loans to finance medium-term capital requirements, which carry interest at floating rates, at a margin over SONIA. The Group's borrowings, excluding the effect of derivatives, can be analysed as follows:

	2022 £m	2021 £m
Fixed rate	**131.2**	161.8
Variable rate	**177.9**	241.6
Cost of raising finance	**(2.1)**	(2.9)
	307.0	400.5

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 circa £1.8m increase (2021: £1.3m) or £1.8m decrease (2021: £1.3m) in the Group's net finance cost.

29 Financial instruments continued

Foreign currency risk

The Group operates primarily within the UK such that its exposure through its trading operations to currency risk is not considered to be significant. Where material 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 recognised in profit and loss offset by movements on the derivative which are recycled from other comprehensive income. As at 30 June 2022 the Group had equivalent £45.7m of debt denominated in Euros and US Dollars at fixed currency rates using derivatives. 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 £2.8m decrease (2021: £4.7m) or £2.9m increase (2021: £4.9m) in the carrying amount of the liability on the Group's balance sheet, with the movement recognised in other comprehensive income.

As at 30 June 2022 the Group had unhedged debt outstanding of US$39.1m. A 5% increase/decrease in the US dollar to sterling exchange rate would lead to a decrease of £1.7m/increase of £1.5m in the carrying amount of the liability.

Liquidity risk

The Group's policy on liquidity risk is to ensure the sufficient borrowing facilities are available to fund operations 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

As at 30 June 2022 the Group had four derivatives outstanding; a nominal value €10.0m hedge and three US$ hedges with a combined nominal value of US$60.0m. 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 swaps.

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		
Continuing operations	Fair value £m	Total £m	0–1 years £m	1–2 years £m	2–5 years £m
Cross-currency swaps: asset					
Gross settled inflows	–	62.3	27.1	1.5	33.7
Gross settled outflows	–	(49.1)	(22.2)	(1.1)	(25.8)
	12.2	13.2	4.9	0.4	7.9

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 debt and associated interest rate derivative with this joint venture has a term of less than one year remaining and is without recourse to the Group. At 30 June 2022, the aggregate amount outstanding on this interest-bearing debt against which an interest rate derivative is held is £15.0m (2021: £15.0m). The Group's share of the total net fair value asset of this interest rate derivative at 30 June 2022 amounted to £0.1m (2021: share of the total net fair value liability is £0.3m) which have met the criteria for hedging accounting.

As at 30 June 2022, the Group had a £100m notional fixed rate derivative whereby the Group pays 1.9% and receives monthly compounded SONIA through to September 2023. This derivative commenced on 1 April 2022.

Financial liabilities – analysis of maturity dates

At 30 June 2022, the Group had the following financial liabilities at amortised cost together with the maturity profile of their contractual cash flows:

				Continuing operations
30 June 2022	Trade and other payables[1] £m	Borrowings £m	Lease liabilities £m	Total £m
Carrying value	**977.3**	**307.0**	**157.6**	**1,441.9**
Contractual undiscounted cash flows				
Less than one year	**944.3**	**55.5**	**31.5**	**1,031.3**
One to two years	**25.4**	**9.4**	**24.2**	**59.0**
Two to three years	**8.0**	**269.2**	**17.4**	**294.6**
Three to four years	**1.7**	**–**	**13.1**	**14.8**
Four to five years	**0.2**	**–**	**11.4**	**11.6**
Over five years	**0.7**	**–**	**106.7**	**107.4**
	980.3	**334.1**	**204.3**	**1,518.7**
30 June 2021				
Carrying value	988.4	400.5	163.8	1,552.7
Contractual undiscounted 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

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.

29 Financial instruments continued

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 2022.

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 2022:

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	**–**	**12.2**	**–**	**12.2**

There were no transfers between levels 1 and 2 during the year ended 30 June 2022.

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.

Borrowings and borrowing facilities

As at 30 June 2022, the Group had the following unsecured committed facilities after the effect of derivatives:
- Revolving credit facility of £535.0m (2021: £535.0m), at a margin over SONIA, due for renewal in January 2025, £177.9m drawn at 30 June 2022 (2021: £241.6m);
- Four loan notes, principal amounts of £20.0m, US$20.0m, £21.2m and $79.1m, with fixed coupons of between 4.6% and 5.4% repayable in two repayments, December 2022 and January 2025, fully drawn at 30 June 2022, totalling £111.1m, which includes elements at both fixed and floating currency rates (2021: £141.7m); and
- Principal amount of €10.0m (2021: €10.0m), with fixed coupon of 2.3%, repayable in May 2023, fully drawn at 30 June 2022 totalling £7.9m at hedged rates (2021: £7.9m).

In addition, the Group has unsecured overdraft facilities of £18.0m (2021: £18.0m), at a margin over base rate, repayable on demand, undrawn at 30 June 2022 and 2021.

Included within borrowings are capitalised loan fees of £1.9m (2021: £2.9m).

The Group repaid and reduced total available facilities by £38.2m (2021: £189.0m) in the year ended 30 June 2022.

30 Financial and capital commitment

	2022 £m	2021 £m
Commitments for capital expenditure	**18.9**	1.8
	18.9	1.8

Capital commitments recognised during the year ended 30 June 2022 relate to land acquisition.

31 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 114–134.

In addition to their salaries, the Group also provides non-cash benefits to Directors and contributes to their pension arrangements as disclosed on page 120. Key management personnel also participate in the Group's share option programme (see note 27).

Key management personnel compensation comprises:

	2022 £m	2021 £m
Emoluments as analysed in the Directors' remuneration report	**4.3**	2.9
Employer's national insurance contributions	**0.6**	0.4
Total short-term employment benefits	**4.9**	3.3
Share-based payment charge	**1.1**	0.6
	6.0	3.9

Transactions with pension schemes

Details of transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint ventures

	2022 £m	2021 £m
Construction services and materials	**23.2**	163.8
Staff and associated costs	**2.4**	7.9
Management services	**1.0**	12.1
Interest on loans to joint ventures	**0.7**	1.2
Plant hire	**0.2**	1.4
	27.5	186.4

Total transactions with joint ventures in the prior year of £186.4m included £136.9m of transactions with Kier Living Limited joint ventures. The Group disposed of Kier Living Limited in the prior year, see note 22.

31 Related parties continued

Equity and other shareholder loans due from joint ventures are analysed below:

	2022 £m	2021 £m
Kier (Southampton) Investment Limited	**12.2**	12.2
Kier (Newcastle) Investment Ltd	**11.1**	11.1
Kier Richmond Holdings Limited	**9.9**	9.9
Solum Regeneration (Twickenham) LLP	**9.2**	16.2
Watford Health Campus Partnership LLP	**9.0**	8.4
Solum Regeneration (Guildford) LLP	**8.7**	8.9
Kier PGIM Logistics Holdco Limited	**7.4**	–
Kier Trade City Holdco 1 LLP	**6.8**	10.1
Solum Regeneration (Bishops) LLP	**6.7**	7.0
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	**5.2**	5.6
Solum Regeneration (Redhill) LLP	**2.3**	2.1
Solum Regeneration (Epsom) Limited Partnership	**1.5**	1.5
Solum Regeneration (Surbiton) LLP	**0.8**	0.4
Solum Regeneration (Maidstone) LLP	**0.7**	0.7
Solum Regeneration Holding 1 LLP	**0.7**	0.7
Solum Regeneration Holding 2 LLP	**0.2**	0.2
Kier Maidenhead Holdings 1 LLP	**–**	3.3
Winsford Holdings 1 LLP	**–**	2.4
Solum Regeneration (Kingswood) LLP	**–**	2.2
	105.4	115.9

Trading balances and other loans due from/(to) joint ventures are analysed below:

	2022 £m	2021 £m
Kier Cornwall Street LLP	**2.0**	0.8
Dragon Lane LLP	**0.1**	0.3
Kier Trade City LLP	**(0.3)**	(1.1)
Kier Maidenhead LLP	**(0.4)**	(0.6)
Kier Reading LLP	**(0.4)**	–
Lysander Student Operations Limited	**(0.5)**	(0.6)
Solum Regeneration (Twickenham) LLP	**(6.7)**	–
Winsford Devco LLP	**–**	0.8
Kier (Southampton) Investment Limited	**–**	0.4
Watford Health Campus Partnership LLP	**–**	0.3
Hackney Schools for the Future 2 Limited	**–**	0.2
Team Van Oord Limited	**–**	0.1
Kier Richmond Limited	**–**	0.1
	(6.2)	0.7

32 Subsidiaries and other undertakings

A full list of subsidiaries, branches, associated undertakings, and joint arrangements as at 30 June 2022 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%

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32 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	100%
		B Ordinary	100%
Kier HGP Holdings 2 Limited	1	Ordinary	100%
Kier HGP Holdings LLP	1	–	100%
Kier Highways Limited	1	A Ordinary	100%
		B Ordinary	100%
Kier Holdco 2 Limited	1	Ordinary	100%
Kier Holdings Limited	1	Ordinary	100%
		Irredeemable preference	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	100%
		Deferred	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	100%
		Islington	100%
Kier Jamaica Development Limited	1	Ordinary	100%
Kier Limited[2]	1	Ordinary	100%
Kier Management Consulting Limited	1	Ordinary	100%
		A Ordinary	100%
		B Ordinary	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%

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%
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	11	Ordinary	100%
Parkman Nigeria Limited	12	Ordinary	100%
Pure Buildings Limited	1	Ordinary	100%
Pure Recycling Warwick Limited	1	Ordinary A	100%
		Ordinary B	100%
Saudi Kier Construction Limited	13	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]	14	Ordinary	100%
The Impact Partnership (Rochdale Borough) Limited	1	Ordinary	80.1%
Tor2 Limited	1	PSP Shares	100%
			80.01%[3]

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Subsidiaries continued

Company name	Registered office[1]	Share class(es) held	% held by Group
TradeDirect Logistics Limited	1	Ordinary	100%
Turriff Contractors Limited	15	Ordinary	100%
Turriff Group Limited	15	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)	16	Ordinary	100%
William Moss Group Limited (The)	1	Ordinary	100%

1 See list of registered office details and explanatory notes on page 218.

Listed below are subsidiaries controlled and consolidated by the Group, which under Section 479A of the Companies Act 2006 (the ‘Act’) are exempt from the requirements of the Act relating to the audit of accounts.

Company name	Company registration number	Year-end
2020 Liverpool Limited	04782302	31 March 2022
Kier (Catterick) Limited	07372563	30 June 2022
Kier Asset Partnership Services Limited	06928701	30 June 2022
Kier Commercial Investments Limited	04002798	30 June 2022
Kier Dormant Holdings Limited	03913684	30 June 2022
Kier Finance Limited	05887689	30 June 2022
Kier Harlow Limited	05961079	30 June 2022
Kier Holdings Limited	05887559	30 June 2022
Kier Islington Limited	03922885	30 June 2022
Kier MBS Limited	11632543	30 June 2022
Kier Parkman ServiGroup Limited	04979378	30 June 2022
Kier Plant Limited	04233359	30 June 2022
Kier Professional Services Limited	08881783	30 June 2022
Kier Recycling CIC	03153490	30 June 2022
Kier Stoke Limited	06391459	30 June 2022
Kier Thurrock Limited	08922437	30 June 2022
Parkman Holdings Limited	02946586	30 June 2022
TradeDirect Logistics Limited	11400572	30 June 2022

Joint ventures

Company name	Registered office[1]	Interest held
Property		
3 Sovereign Square Holdings 1 LLP	1	50%
3 Sovereign Square Holdings 2 LLP	1	50%
3 Sovereign Square LLP	1	50%
50 Bothwell Street Holdco 1 LLP	17	50%
50 Bothwell Street Holdco 2 LLP	17	50%
50 Bothwell Street LLP	17	50%
Dragon Lane Holdings 1 LLP	1	50%
Dragon Lane Holdings 2 LLP	1	50%
Dragon Lane LLP	1	50%
Kent LEP 1 Limited	1	80%
Kier (Newcastle) Investment Ltd	1	75%
Kier (Newcastle) Operation Limited	1	75%
Kier (Southampton) Development Limited	1	75%
Kier (Southampton) Investment Limited	1	75%
Kier (Southampton) Operations Limited	1	75%
Kier Cornwall Street Holdings 1 LLP	1	90%
Kier Cornwall Street Holdings 2 LLP	1	90%
Kier Cornwall Street LLP	1	90%
Kier Foley Street Holdco 1 LLP	1	90%
Kier Foley Street Holdco 2 LLP	1	90%
Kier Foley Street LLP	1	90%
Kier Maidenhead Holdings 1 LLP	1	90%
Kier Maidenhead Holdings 2 LLP	1	90%
Kier Maidenhead LLP	1	90%
Kier PGIM Logistics (Bognor) Ltd	1	25.5%
Kier PGIM Logistics (Bracknell) Ltd	1	25.5%
Kier PGIM Logistics (Knowsley) Ltd	1	25.5%
Kier PGIM Logistics (St. Albans) Ltd	1	25.5%
Kier PGIM Logistics Holdco Ltd	1	25.5%
Kier PGIM Logistics Propco 4 Ltd	1	25.5%
Kier PGIM Logistics Propco 5 Ltd	1	25.5%
Kier PGIM Logistics Propco 7 Ltd	1	25.5%
Kier PGIM Logistics Propco 8 Ltd	1	25.5%
Kier Reading Holdco 1 LLP	1	90%
Kier Reading Holdco 2 LLP	1	90%
Kier Reading LLP	1	90%
Kier Richmond Holdings Limited	1	90%
Kier Richmond Limited	1	90%
Kier Sydenham GP Holdco Limited	1	50%
Kier Sydenham GP Limited	1	50%
Kier Sydenham LP	1	50%
Kier Sydenham Nominee Limited	1	50%
Kier Trade City Holdco 1 LLP	1	90%
Kier Trade City Holdco 2 LLP	1	90%
Kier Trade City LLP	1	90%
Kier Warth Limited	1	50%
Lysander Student Properties Investments Limited	1	75%
Lysander Student Properties Limited	1	75%
Lysander Student Properties Operations Limited	1	75%

[1] See list of registered office details and explanatory notes on page 218.

32 Subsidiaries and other undertakings continued
Joint ventures continued

Company name	Registered office[1]	Interest held
Magnetic Limited	1	75%
Penda Limited	1	50%
Premier Inn Kier Limited	1	50%
Solum Regeneration (Bishops) LLP	1	50%
Solum Regeneration (Epsom) Limited Partnership	1	50%
Solum Regeneration (Guildford) LLP	1	50%
Solum Regeneration (Haywards) LLP	1	50%
Solum Regeneration (Kingswood) LLP	1	50%
Solum Regeneration (Maidstone) LLP	1	50%
Solum Regeneration (Redhill) LLP	1	50%
Solum Regeneration (Surbiton) LLP	1	50%
Solum Regeneration (Twickenham) LLP	1	50%
Solum Regeneration (Walthamstow) LLP	1	50%
Solum Regeneration Epsom (GP Subsidiary) Limited	1	50%
Solum Regeneration Epsom (GP) Limited	1	50%
Solum Regeneration Epsom (Residential) LLP	1	50%
Solum Regeneration Holding 1 LLP	1	50%
Solum Regeneration Holding 2 LLP	1	50%
Transcend Property Limited	18	50%
Tri-Link 140 Holdings 1 LLP	1	50%
Tri-Link 140 Holdings 2 LLP	1	50%
Tri-Link 140 LLP	1	50%
Watford Health Campus Limited	1	50%
Watford Health Campus Partnership LLP	1	50%
Watford Riverwell (Family Housing) LLP	1	50%
Watford Riverwell Management Company Limited	19	50%
Watford Woodlands LLP	1	50%
Winsford Devco LLP	1	50%
Winsford Holdings 1 LLP	1	50%
Winsford Holdings 2 LLP	1	50%
Construction		
Kier Graham Defence Limited	1	50%
Services		
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 218.

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 Construccion 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	2nd 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

32 Subsidiaries and other undertakings continued
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, Al Gaith Tower, Hamdan Street, PO Box 61967, Abu Dhabi, United Arab Emirates
7	151 Angle Avenue, Jean Paul II et Impasse Duverger, Turgeau, Port-au-Prince, Haiti
8	905 and 906, 9th Floor, Thuraya Tower, Tecom, P.O. Box 24461, 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	5th Floor, Agip House, P.O. Box 41425, Nairobi, Kenya
12	9, N/Azikiwe St., Lagos, Nigeria
13	PO Box 667, 4th Floor, ATCO Building, King Khaled Road, Dammam-31421, Kingdom of Saudi Arabia
14	PO Box 33, Dorey Court, Admiral Park, St Peter Port, GY1 4AT, Guernsey
15	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, G33 6HZ, UK
16	1 More London Place, London, SE1 2AF, UK
17	Renoir House 135-137 New Bond Street, Mayfair, London, England, W1S 2TQ, UK
18	1 Kingsway, London, WC2B 6AN, UK
19	11 Little Park Farm Road, Fareham, Hampshire, PO15 5SN, UK
20	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ, 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.

Company balance sheet
As at 30 June 2022

	Note	2022 £m	2021 £m
Non-current assets			
Investments	6	**437.8**	429.2
Amounts due from subsidiary undertakings	7	**1,467.5**	1,411.9
Other financial assets	9	**8.5**	11.4
Non-current assets		**1,913.8**	1,852.5
Current assets			
Debtors	7	**3.3**	3.1
Other financial assets	9	**3.7**	2.0
Current assets		**7.0**	5.1
Total assets		**1,920.8**	1,857.6
Current liabilities			
Bank overdraft		**(415.8)**	(214.1)
Creditors: amounts falling due within one year	8	**(52.3)**	(54.8)
Provisions for liabilities		**(1.2)**	–
Current liabilities		**(469.3)**	(268.9)
Non-current liabilities			
Creditors: amounts falling due after more than one year	8	**(266.5)**	(362.3)
Amounts due to subsidiary undertakings	8	**(60.9)**	(120.1)
Provisions for liabilities		**(2.2)**	(6.1)
Non-current liabilities		**(329.6)**	(488.5)
Total liabilities		**(798.9)**	(757.4)
Net assets		**1,121.9**	1,100.2
Shareholders' funds			
Called up share capital	10	**4.5**	4.5
Share premium account		**684.3**	684.3
Merger reserve		**350.6**	350.6
Capital redemption reserve		**2.7**	2.7
Profit and loss account		**79.7**	57.2
Cash flow hedge reserve		**0.1**	0.9
Total equity		**1,121.9**	1,100.2

The profit for the year was £20.6m (2021: £68.7m loss).

The financial statements of Kier Group plc, company registration number 2708030, on pages 219–225 were approved by the Board of Directors on 14 September 2022 and were signed on its behalf by:

Andrew Davies
Chief Executive

Simon Kesterton
Chief Financial Officer

Company statement of changes in equity

For the year ended 30 June 2022

	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption reserve £m	Profit and loss account £m	Cash flow hedge reserve £m	Total equity £m
At 1 July 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)
Total comprehensive loss for the year	–	–	–	–	(68.7)	(1.3)	(70.0)
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
Profit for the year	**–**	**–**	**–**	**–**	**20.6**	**–**	**20.6**
Other comprehensive expense	**–**	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**20.6**	**(0.8)**	**19.8**
Purchase of own shares	**–**	**–**	**–**	**–**	**(6.7)**	**–**	**(6.7)**
Share-based payments	**–**	**–**	**–**	**–**	**8.6**	**–**	**8.6**
At 30 June 2022	**4.5**	**684.3**	**350.6**	**2.7**	**79.7**	**0.1**	**1,121.9**

Included in the profit and loss account is the balance on the share scheme reserve which comprises the investment in own shares of £6.9m (2021: £0.1m) and a credit balance on the share scheme reserve of £15.5m (2021: £11.7m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment scheme are included in note 27 to the consolidated financial statements.

Notes to the Company financial statements
For the year ended 30 June 2022

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, except for derivative financial instruments which are stated at their fair value.

Kier Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 2nd Floor, Optimum House, Clippers Quay, Salford, M50 3XP.

The Company's financial statements are included in the Kier Group plc consolidated financial statements for the year ended 30 June 2022. 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 2021 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 46–52 of IFRS 2 'Share-Based Payments'
- The requirements of IFRS 7 'Financial Instruments: Disclosures'
- The requirements of paragraphs 91–99 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 134–136 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 1–10.

Changes in significant accounting policies
Following the introduction of IFRS 9, which was effective from 1 July 2018, the Company chose to continue to apply the hedge accounting requirements of IAS 39. The Company has elected to adopt the general hedge accounting model in IFRS 9, with effect from 1 July 2021. This requires the Company to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy, and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

The Company uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings. The Company's risk management strategies and hedge documentation are aligned with the requirements of IFRS 9. All hedging relationships designated under IAS 39 at 30 June 2021 met the criteria for hedge accounting under IFRS 9 at 1 July 2021 and are therefore regarded as continuing hedging relationships.

The transition from IAS 39 to IFRS 9 hedge accounting requirements has not had a material effect on the Company's financial statements.

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 153–154.

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.

1 Accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. 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

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 portion of changes in the fair value of these derivatives is recognised in the cash flow hedge reserve within equity. 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.

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. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to profit or loss.

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. The fair values of derivative instruments 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 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 applies to 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 Finnerty 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 Profit/(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 profit for the year was £20.6m (2021: £68.7m loss).

The auditors' remuneration for audit services to the Company was £0.1m (2021: £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 114–134. The Company has no employees other than the Directors.

4 Dividends

No dividends have been paid by the Company (2021: £nil). See note 10 to the consolidated financial statements.

5 Disposals

The loss on disposal incurred by the Company in the prior year 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 Limited 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 Limited working capital since the 'locked box' date.
2 A condition of the disposal was the settlement of the Kier Living Limited 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 Kier Living Limited which represent the costs of completing the outstanding work. In addition, a piece of land owned by Kier Limited was transferred to Kier Living Limited on disposal, generating a Stamp Duty Land Tax liability.

6 Investments

	2022 £m	2021 £m
At 1 July	**429.2**	532.2
Capital contributions	**8.6**	7.0
Disposal	**–**	(110.0)
At 30 June	**437.8**	429.2

Details of the Company's subsidiaries at 30 June 2022 are provided in note 32 to the consolidated financial statements.

Capital contributions of £8.6m were made during the year ended 30 June 2022 in relation to share-based payments on behalf of subsidiaries (2021: £7.0m).

Certain subsidiaries of the Group have opted to take advantage of a statutory exemption from having an audit in respect of their individual statutory accounts. Strict criteria must be met for this exemption to be taken and it must be agreed to by the directors of those subsidiary companies. Listed in note 32 are subsidiaries controlled and consolidated by the Group where the directors have taken advantage of the exemption from having an audit of the companies' individual financial statements in accordance with Section 479A of the Companies Act 2006.

In order to facilitate the adoption of this exemption, Kier Group plc, the ultimate parent company of the subsidiaries concerned, undertakes to provide a guarantee under Section 479C of the Companies Act 2006 in respect of those subsidiaries.

7 Debtors

	2022 £m	2021 £m
Amounts falling due within one year:		
Other debtors	**–**	0.1
Deferred tax	**3.3**	3.0
	3.3	3.1
Amounts falling due after more than one year:		
Amounts due from subsidiary undertakings[1]	**1,467.5**	1,411.9
	1,467.5	1,411.9

1 The amounts due from subsidiary undertakings incur interest at 4.0% and are repayable between one and four years.

8 Creditors

	2022 £m	2021 £m
Amounts falling due within one year:		
Borrowings	**40.5**	38.2
Corporation tax	**9.9**	12.1
Other creditors	**1.9**	4.5
	52.3	54.8
Amounts falling due after more than one year:		
Borrowings	**266.5**	362.3
Amounts due to subsidiary undertakings[1]	**60.9**	120.1
	327.4	482.4

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 21 to the consolidated financial statements.

9 Other financial assets

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.
- One cross-currency swap taken out in 2014 to hedge the currency risk on a US dollar-denominated loan, nominal value US$40.0m.
- One cross-currency swap taken out in 2016 to hedge the currency risk on a euro-denominated loan, nominal value €10.0m

In FY21, the Company had two additional interest rate swaps with a total value of $64m. They both expired during the year.

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	–	62.3	27.1	1.5	33.7
Gross settled outflows	–	(49.1)	(22.2)	(1.1)	(25.8)
	12.2	13.2	4.9	0.4	7.9

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 2022.
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 2022.

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Derivatives used for hedging – Cross-currency swaps	–	12.2	–	12.2

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

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 26 to the consolidated financial statements.

Financial record
(unaudited)

Continuing operations

Year ended 30 June	**2022 £m**	2021 £m	2020 £m	2019 £m	2018 £m
Revenue: Group and share of joint ventures	**3,256.5**	3,328.5	3,475.6	4,106.0	4,512.8
Less share of joint ventures	**(112.6)**	(67.5)	(53.1)	(154.9)	(273.2)
Group revenue	**3,143.9**	3,261.0	3,422.5	3,951.1	4,239.6
Profit					
Group operating profit[1]	**93.6**	96.4	41.0	75.6	140.8
Share of post-tax results of joint ventures	**26.9**	3.9	(0.2)	10.1	42.7
Profit on disposal of joint ventures	**–**	–	0.6	–	3.5
Operating profit before adjusting items	**120.5**	100.3	41.4	85.7	187.0
Net finance costs before adjusting items	**(26.4)**	(34.9)	(24.5)	(24.3)	(23.1)
Profit before adjusting items and tax	**94.1**	65.4	16.9	61.4	163.9
Amortisation of acquired intangible assets relating to contract rights	**(19.7)**	(21.0)	(23.7)	(24.8)	(25.6)
Adjusting finance costs	**(2.8)**	(3.2)	(5.2)	(1.7)	(5.1)
Other adjusting items	**(55.7)**	(35.6)	(213.3)	(264.4)	(27.0)
Profit/(loss) before tax	**15.9**	5.6	(225.3)	(229.5)	106.2
Basic earnings per share before adjusting items	**16.8p**	25.0p	12.2p	24.8p	109.8p
Dividend per share	**–**	–	–	3.9p	54.4p
At 30 June					
Shareholders' funds (£m)	**554.6**	435.0	240.8	519.6	601.1
Net assets per share	**125.1p**	206.8p	119.4p	257.2p	486.5p

1 Stated before adjusting items. See note 5 for reference to adjusting items.

Glossary of alternative performance measures

The Group presents various alternative performance measures ('APMs') as the performance of the Group is reported and measured on this basis internally. This includes key performance indicators ('KPIs') which are included on page 40.

APM	Purpose	Reference
Total Group revenue	Revenue from the Group from continuing operations including joint ventures	KPIs Consolidated income statement
Adjusted operating profit	Operating profit for the year from continuing operations before adjusting items	KPIs Note 5
Adjusted profit before tax	Profit before tax for the year from continuing operations before adjusting items	Note 5
Adjusted earnings per share	Earnings per share for the year generated from continuing operations before adjusting items	KPIs Note 11
Adjusted diluted earnings per share	Diluted earnings per share for the year generated from continuing operations before adjusting items	Note 11
Adjusted cash flow from operating activities	Cash flow from operating activities for the year before adjusting items	Note 5
Net cash	The Group's net cash at the year-end date	KPIs Note 21
Average net debt	The Group's net cash/(debt) as an average of the month end positions up to the previous year-end date	KPIs Note 21
Free cash flow	An alternative cash flow measure to evaluate what is available for distribution	KPIs Note 21(c)
Adjusted operating margin	Operating margin calculated as a percentage of adjusted operating profit over total group revenue	Operational review (pages 18–23)
Order book	Secured and probable future contract revenue not currently recognised in the financial statements	KPIs

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

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