Kier Group

Results for the 6 months ended 31 December 2020

21 April 2021

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Results Summary

Andrew Davies, CEO

Significant financial and strategic progress

Materially improved results despite COVID-19 impact

- Return to profitability – margin improvement to 2.9%
- Free cash flow – improved performance as profits translating to cash
- Order book – increased, de-risked and higher quality

Significant progress on 2019 strategic review

- Simplification of the Group substantially complete, including disposal of Kier Living for £110m
- Upgraded self help cost reduction programme to at least £115m and embedded culture of Performance Excellence
- Concluding step – proposed £190m to £240m equity raise in the coming weeks

Medium term value creation plan

- £4 – £4.5bn revenue at c. 3.5% margin
- 90% cash conversion and sustainable net cash balance
- Sustainable dividend policy

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H1 Results

Simon Kesterton, CFO

Income Statement – Continuing Operations

Material improvement in profitability through delivery of strategic priorities

£'m	HY21	%	HY20	%	Δ	FY20	%
Revenue	1,624		1,866		(13.0)%	3,476	
Adjusted Operating Profit[1]	47.6	2.9	46.7	2.5	1.9%	41.4	1.2
Net finance costs	(19.8)		(16.0)		(23.8)%	(24.5)	
Adjusted Profit	27.8	1.7	30.7	1.6	(9.4)%	16.9	0.5
Adjusting items	(7.5)		(60.1)		87.5%	(218.5)	
Amortisation	(11.3)		(11.8)		4.2%	(23.7)	
Taxation	(1.9)		5.4		(135.2)%	53.4	
Profit/(loss) from continuing operations	7.1		(35.8)		119.8%	(171.9)	
Adjusted basic EPS	13.0p		15.0p		(13.3)%	15.3p	
Statutory EPS	4.8p		(22.1)p		121.7%	(106.2)p	
Net debt	353.5		242.5			310.3	
Average month end net debt	436		395			436	

- Revenue reduction reflects completion of Smart Motorways contracts, simplification of the Group and COVID-19
- Adjusted operating profit of £47.6m driven by management actions and improved project performance
- Reported profit in period
- Average net debt in line with FY20 despite KEPS reduction to £109m and lower working capital volatility

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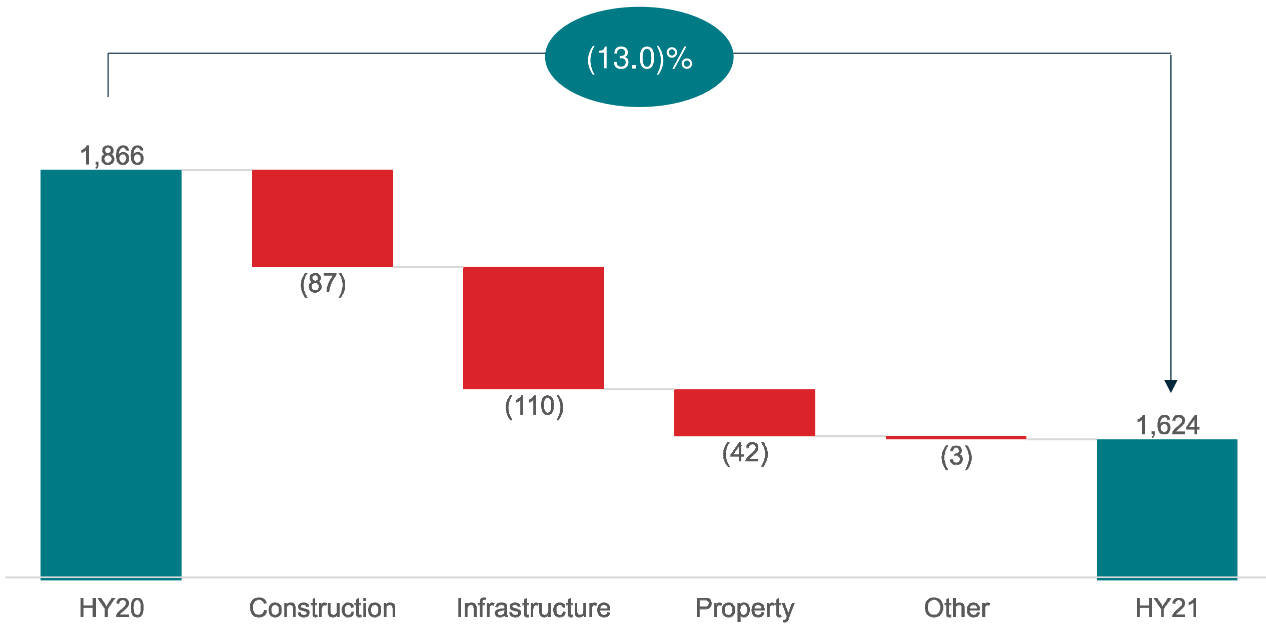
1) FY20 adjusted operating profit £86.7m before COVID-19 costs

Revenue Performance – Continuing Operations

Revenue impacted by challenging market conditions and exiting of low margin business



- Revenue decline of 13% in HY21
  - Construction – simplification of the Group
  - Infrastructure – Highways reflects successful completion of two Smart Motorway projects in H2 FY20
  - Property reflects capital allocation strategy and COVID-19

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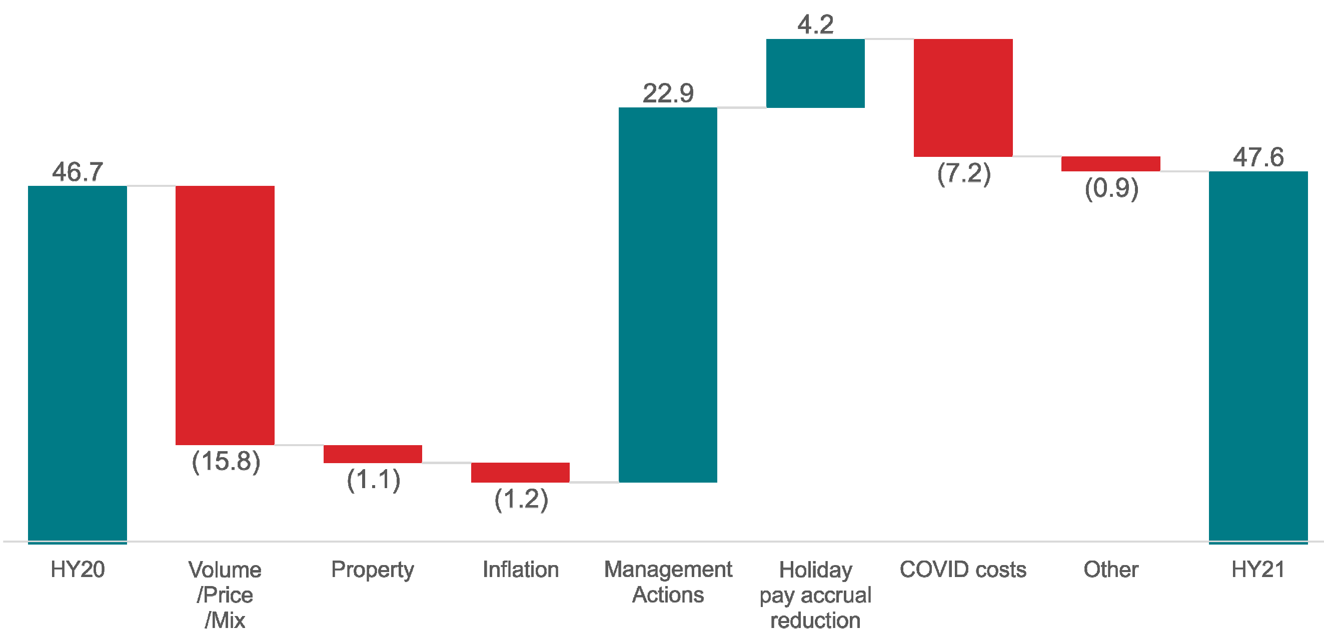
Adjusted Operating Profit – Continuing Operations

Margin increase underpinned by cost savings and contract exits



- Adjusted operating profit of £47.6m in HY21 or 2.9% margin
- Increase against prior year:
  - Volume / price / mix impacted by volume declines
  - Property reflects capital allocation
- Annualised run rate of + £115m for FY21

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Adjusting Items – Continuing Operations

Adjusting items significantly reduced as cost saving programme nears completion

£'m	HY21	HY20	FY20
Previous acquisition costs	-	3.1	5.0
Business divestment related expenditure	(0.8)	7.4	33.6
Cost saving programmes	6.0	48.8	156.1
Amortisation	11.3	11.8	23.7
Other	2.3	-	18.6
Total adjusting items to operating profit	18.8	71.1	237.0
Finance costs	-	0.8	5.2
Total adjusting items to profit before tax	18.8	71.9	242.2
Cash cost	**27.1**	**35.4**	**93.5**

- Largely non-cash amortisation related to acquired intangibles for previous acquisitions
- Business divestment – exit contract costs and fair value adjustments on certain assets held for sale
- Cost saving programmes – restructuring costs mainly related to headcount reduction
- Other includes remedial cladding costs £1.8m (FY20:£4.2m)

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Cost Saving Programmes

One-off costs incurred to access £115m of annualised cost savings run rate

£'m	HY21	HY20	FY20
Redundancy costs	1.4	16.8	29.5
Professional advisor fees	0.5	18.1	34.2
Restructure within Construction	3.5	-	61.5
Lease impairments	0.6	10.1	14.4
Outsourcing costs	-	3.8	11.1
Property impairment	-	-	5.4
Cost saving programmes	6.0	48.8	156.1

- Cost reduction actions taken in FY20 to rightsize the business

£m	FY21 run rate
Wages & Salary	97
Outsourcing	7
Footprint	11
Total	115 +

- Over time leading to stable margins and free cash flow generation
- Targeting to achieve annualised cost benefits of £115m in FY21 and beyond
  - Upgraded from previous £105m+ estimate
  - Material cash costs incurred

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Free Cash Flow – Continuing Operations

Implementation of strategic imperatives driving significant cash flow improvements

£'m	HY21	HY20	FY20
Adjusted EBITDA [(a),(d)]	71.7	73.0	161.1
Working capital [(a)]	1.1	(84.8)	(43.7)
Net capex (Including IFRS16 leases) [(a)]	(20.6)	(18.9)	(47.4)
JV dividends less profits	4.9	9.0	19.3
Other [(b)]	0.9	5.5	9.0
Operating Cash Flow	58.0	(16.2)	98.3
Net interest & tax [(a)]	(10.3)	(14.0)	(32.5)
Free Cash Flow	47.7	(30.2)	65.8
Adjusted conversion [(c)]	110%	(28)%	82%
Net COVID-19 impact	(28.9)	-	(74.1)
Free Cash Flow	18.8	(30.2)	(8.3)

- Significant increase in operating cash flow conversion to 110%
- Significant improvement in working capital despite:
  - Further £16.1m reduction in KEPS in period
  - Quicker payments to supply chain average payment in 34 days, down from 38 days
- COVID-19 impacts
  - Repaid £28.9m of HMRC deferred taxes
  - £49.9m remaining to be paid

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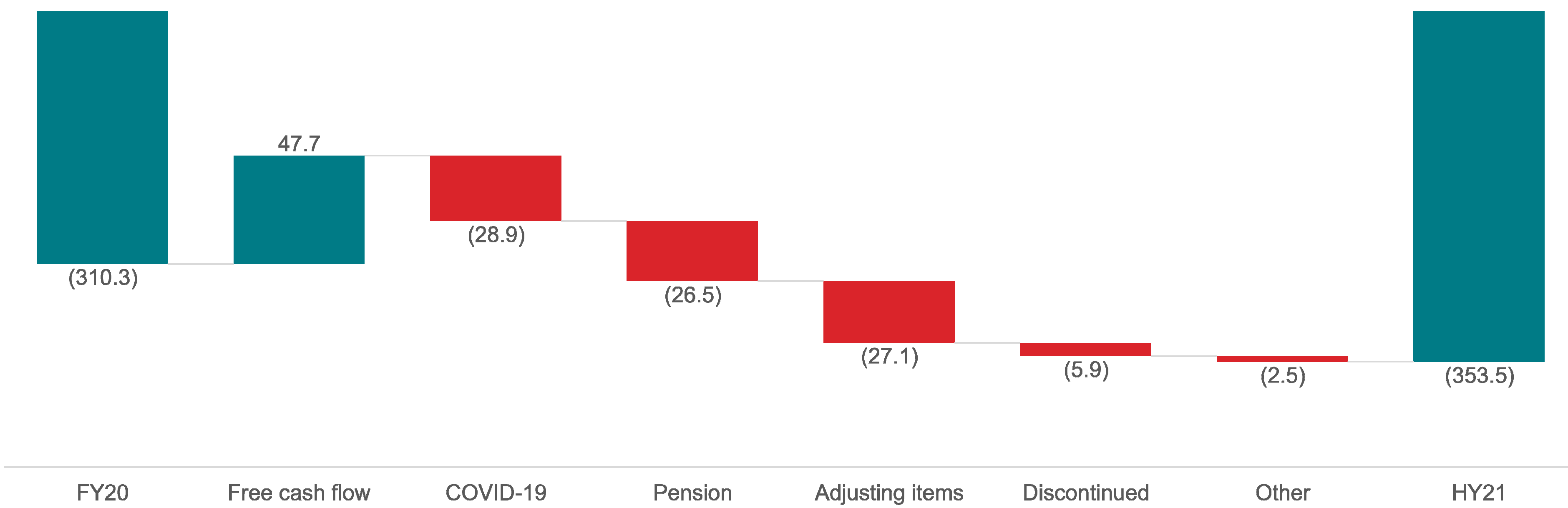
a) HY20 / FY20 restated to include IFRS 16 impact
b) Other consists of share-based payments, disposals of fixed assets
c) Adjusted conversion calculated as operating cash flow over Adjusted EBITDA excluding IFRS16 impact
d) Adjusted EBITDA FY20 is stated before direct and volume related COVID impact

Net Debt Movement

Free cash generation offset by the payment of one-off items



Financing and Liquidity

Significant liquidity headroom under borrowing facilities

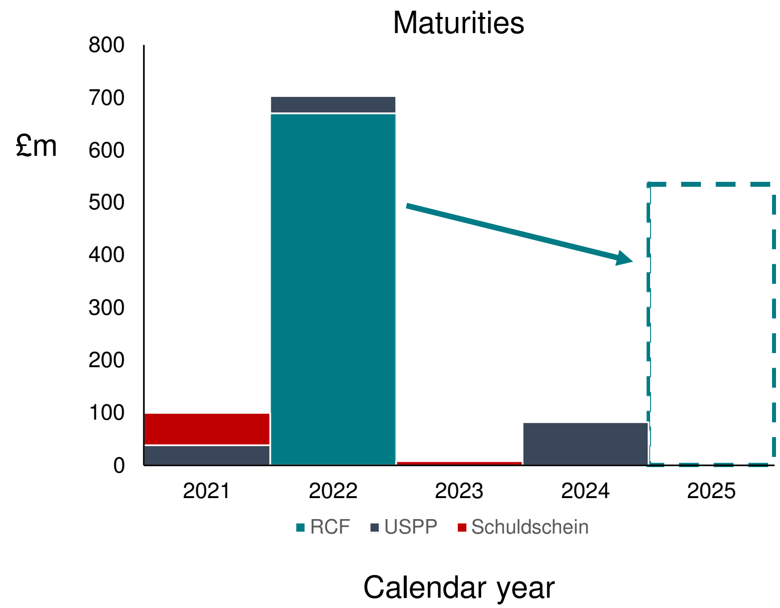
	Dec 2020
Net debt (£m)	353
Average month end net debt (£m)	436

Covenants

- Passed testing at September 2020 and December 2020

Facility extensions

- Agreed extension of RCF from July to September 2022
- Further extension to 2025 subject to successful equity raise



Strategic and Operational Update

Andrew Davies, CEO

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Decisive management actions

Legacy issues addressed and operational turnaround largely complete

Legacy Issues

- Business Culture
- Acquisition History
- Loss Making Contracts
- Corporate Costs
- Cash Management
- Balance Sheet

April 2019

Andrew Davies appointed

Strategic review

Turnaround Process

Management Change

September 2019 Simon Kesterton appointed as CFO	**January 2020** Matthew Lester appointed	**February 2020** Office footprint reduced	**Early 2020** New Living management team	**2020** New senior management in place

Operational Improvements

Strategic Review in 2019	Performance Excellence launched	Reset working capital practices	Cost savings now £115m by end FY21	New financing package & reduced pension contribution

Portfolio Rationalisation

August 2019 Kier Living sale process commenced	**2020** Rationalised Facilities Management	**2020** Exit Environmental Services	**September 2020** Reduced Property capital allocation	**April 2021** Sale of Kier Living announced

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Construction

Reorganised profitable business is well placed to benefit from UK Government opportunities

£'m	HY21	HY20	Δ
Revenue	902.6	989.5	(8.8)%
Adjusted Operating Profit	33.6	31.7	6.0%
Operating margin	3.7%	3.2%	50 bps
Order book (£bn)	3.4	3.6	(5.6)%

Financial Performance

- Revenue reflects pace of contract awards and focus on margin through the exit of low and loss making contracts
- Adjusted Operating Profit reflects the better quality programme of work underpinned by a culture of Performance Excellence

Commercial & Operational Update

- Awarded places on frameworks worth up to £11.5bn
  - Lots 3 & 4 of the NHS Shared Business Services Public Sector Construction Works Framework
- Continue to win projects in key markets, e.g.:
  - New surgical centre for NHS Somerset worth £87m
  - £64m Fitzalan High School in Cardiff
- 91% of orders secured for FY21
- Reorganised segment
  - Now incudes Kier Places (Formerly Specialist Services comprising Housing Maintenance and Facilities Management)

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Infrastructure Services

A quality portfolio of businesses well placed to benefit from UK Government opportunities

£'m	HY21	HY20	Δ
Revenue	672.6	783.2	(14.1)%
Adjusted Operating Profit	27.3	27.6	(1.1)%
Operating margin	4.1%	3.5%	60 bps
Order book (£bn)	4.6	4.3	7.0%

Financial Performance

- Revenue reflects the successful handover of two Smart Motorways last year and the conclusion of a local authority highways contract
- Adjusted Operating Profit margin reflects focus on higher margin work

Commercial & Operational Update

- Awarded a contract with Transport for London (TfL) worth £200m
- Contract win with CityFibre added to existing BT Openreach and Virgin telecoms infrastructure projects
- Appointed to deliver £59m major infrastructure project at Sellafield
- Work on HS2 has commenced
- 84% of orders secured for FY21

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Property

Appropriate capital allocation

£'m	HY21	HY20	Δ
Revenue	46.1	87.9	(47.6)%
Adjusted Operating Profit	2.6	3.4	(23.5)%
Operating margin	5.6%	3.9%	170 bps
Capital employed	£139m	£145m	(4.1%)

Financial Performance

- Revenue reflects capital constraints
- Adjusted Operating Profit margin reflects the mix of development projects

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Strong order book

Strong order book underpinned by contract wins and extensions

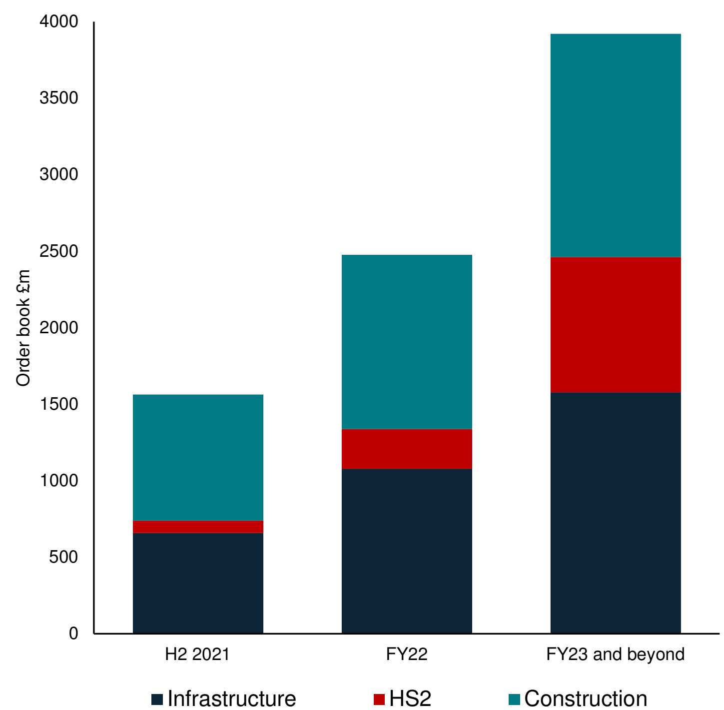
- Order book has remained resilient as the Group continues to win high quality work in its key markets
- 62% of FY22 revenue secured
- De-risked contracts:
  - 51% of order book is under target cost or cost reimbursable contracts
  - Construction average order size is £9m
- Increased order book, coupled with shift towards lower risk contracts provides clear visibility over medium term targets

Orderbook

£8.0bn[1]

£3.4bn	£1.2bn	£3.4bn
Infrastructure & Other	HS2	Construction

Secured revenue



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Order book reflects secured and probable future contract revenue not currently recognised in the financial statements
***Note 1**: as at 31 December 2020*

ESG
Building for a Sustainable World

Andrew Davies, CEO

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Sustainability progress

Environmental

- 2015 – Named in the FTSE 350 Climate Disclosure Leadership index scoring in the top 10%
- 2018 – Launched 30 by 30 strategy, aiming to reduce energy consumption by 30% by 2030
- 2020 – Achieved a 50% reduction in carbon emissions intensity (Scope 1 and 2) since 2014
- 2020 – Achieved a 35% reduction in construction waste volume since 2015

Social

- 2012 – Founding partner of Supply Chain Sustainability School
- 38% reduction in reportable accidents and 43% reduction in lost time accidents since June 2017
- 2018 – 47% of our graduate intake were women
- 2020 – Achieved 99% spend with SMEs on a number of public sector frameworks
- 2020 – Trained 700 Mental Health First Aiders
- 2021 – Introduction of new severity based metric to focus on wider health and safety performance

Governance

- Operating Assurance Statements
- Annual BSI audits on ISO14001, 45001 & 9001 compliance
- Integrated Operational Assurance statement & processes
- Internal policy centre including modern slavery, anti-bribery & corruption, data protection and whistleblowing

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Building for a sustainable world

Kier's Sustainability framework commitments

Environmental

- Net Zero Carbon emissions across scopes 1, 2 & 3 by 2045
- Publication of Kier's Net Zero pathway in FY21
- Kier operations will be single use plastic free by 2030 and we will produce no avoidable waste by 2035
- Launching carbon, water, waste and biodiversity KPIs
- Seek to employ innovation, new technology and best practice in pollution prevention

Social

- Development and launch of a new employee health and well-being strategy
- Appointment of a Group Head of ED&I and development of a Group ED&I strategy
- Creation of Kier's social's purpose to tackle inequality by giving individuals and communities the tools and opportunities to create brighter futures
- By the end of FY21 we will have developed 965 apprentices during the year

Governance

- Sustainability Leadership forums, ensuring Board oversight and cross functional input.
- Project Lifecycle Management System and processes
- Continuous improvement of the Operational Assurance Statement with training requirements progressing from levels 1 to 2

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Investment Case

Andrew Davies, CEO

Simon Kesterton, CFO

Attractive market positions in growing markets

Infrastructure Services			Construction
Highways	**Utilities**	**Infrastructure**	**Regional Building**
• Market leading position (#1 strategic highways and top 3 local highways) • Highways national assets valued at over £500bn drive robust ongoing demand for renewal, enhancement and maintenance • Over two thirds of revenues undertaken on a low commercial risk cost sensitive basis • Established relationships with strategic clients on long term frameworks typically 6-10 years	• Top 3 contractor in water and energy sectors • More than 90% of revenues from long-term contract and alliances • Majority of contracts delivered under cost reimbursable contracts • Fibre network build partner to Top 3 UK digital infrastructure providers	• Delivers complex high value schemes for blue chip customers across key sectors - Nuclear, Energy, and Rail • Delivery partner on the largest section of HS2 Phase 1 – Europe's biggest infrastructure project • Repeat business relationships >10 years for customers in our chosen sectors • 81% of contracts delivered under cost reimbursable contracts	• # 1 UK national builder • Project delivery for public and private sectors • Strategic Supplier to the Department for Education • 78% of projects for repeat clients
£0.8bn **Revenue FY2020***	**£0.4bn** **Revenue FY2020***	**£0.3bn** **Revenue FY2020***	**£1.6bn** **Revenue FY2020***
11% **Expected market growth by 2022****	**46%** **Expected market growth by 2022****	**52%** **Expected market growth by 2022****	**12%** **Expected market growth by 2022****

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* Excludes JV revenue
** CPA 2020 forecast data

Infrastructure UK Government spending commitments

National Infrastructure Strategy- commitment to spend £600bn over next 5 years*

Infrastructure

Highways

- ✓ Road investment Strategy 2: £27bn investment in England's strategic roads - 2020-2025 (a 60% increase on Roads Investment Strategy 1 from 2015-2020)
- ✓ Project Speed and the new Acceleration Unit launched by DfT in August 2020
- ✓ Sir Peter Hendys' Union Connectivity Review published in March 2021

Utilities

- ✓ Water England/Wales AMP7 £50bn by 2024, Scottish SR21 £8bn by 2027, NI PC21 £2.8bn by 2027
- ✓ Energy - GB - RIIO-ED1 (£17bn by 2023) / RIIO-GD (£30bn by 2026); NI - RP 6 (£657m by 2024) and GD17 (£226m by 2023)
- ✓ Telecoms – Fibre/5G by 2027, £32bn commitment by private and public sectors

Rail and infrastructure

- ✓ £37-53bn forecast cost ranges for HS2 Phases 2a and 2b**
- ✓ £22bn available via Infrastructure Bank to fund or guarantee future schemes
- ✓ £20bn new nuclear build
- ✓ £9.4bn committed to enhancements for Network Rail
- ✓ £4 billion cross-departmental "Levelling Up" Fund

Net Zero infrastructure

- ✓ UK leading net-zero pledge
- ✓ Ten point plan for a green industrial revolution
- ✓ £138bn investment in UK energy infrastructure by 2028
- ✓ Greener buildings, public transport and carbon capture

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*Construction Playbook

Construction UK Government spending commitments

Construction

Education

- ✓ 10 year School Re-building Programme
- ✓ First 50 school projects announced valued at £1bn
- ✓ £1.5bn Further Education programme announced

Health

- ✓ £1.5bn additional funding for hospital upgrades
- ✓ £3.7bn New Hospitals Programme to be delivered by 2025

Justice

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

Defence

- ✓ £8bn 10-year capital expenditure programme announced

Commercial

- ✓ Increase in refurbishment for agile working practices due to COVID-19
- ✓ Regional focus

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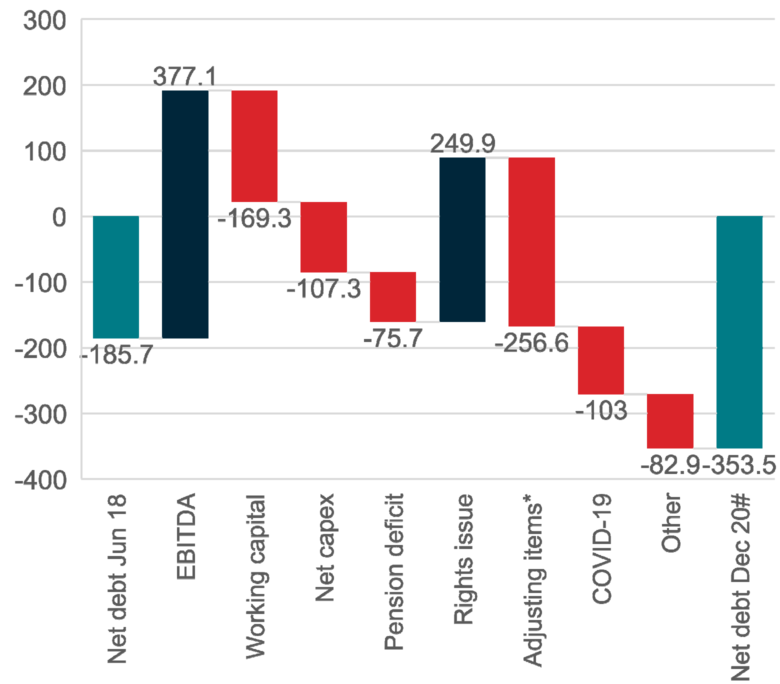
Financial performance issues resolved

Business now capable of 90% free cashflow conversion

Historic issue	Future Kier
Working Capital outflows Unwinding bad payment practices, overreliance on KEPS & poor portfolio management	**No material working capital outflow**
Net Capex Includes £97m Oracle ERP system and IFRS 16 lease payments	**Disciplined ongoing investment**
Pension deficit Defined benefit pension scheme contributions	**Revised repayment plan agreed**
Adjusting items Period of accelerated acquisitions & £115m cost reduction plan	**Future cash adjusting items de minimis**
(41)% operating cash flow conversion in FY2019	**Targeting 90% operating FCF conversion**

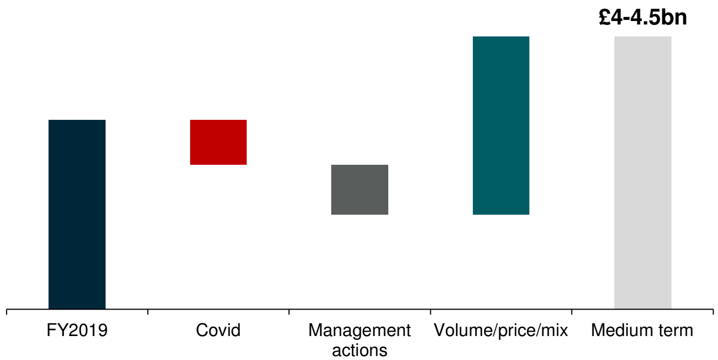


* Adjusting items includes discontinued operations of £75m
** Other includes dividends, sales proceeds, JV proceeds, tax, interest and other FCF items

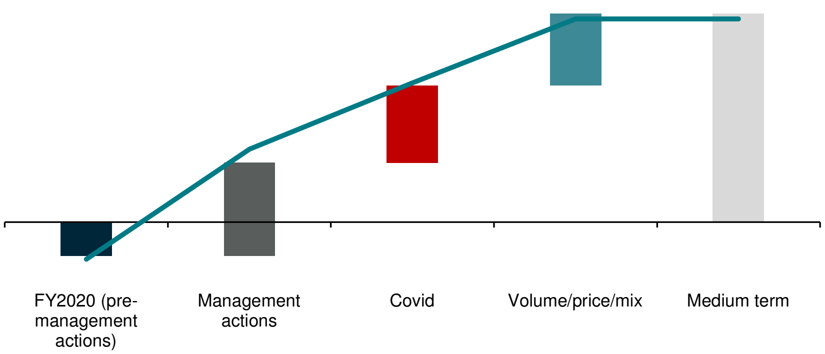
Drivers of medium term targets

Route to revenues of £4 - 4.5bn and 3.5% operating profit margin

Revenue Growth £bn



Operating profit margin growth %



COVID-19
Reversal of the increased project costs and volumes impact associated with COVID

Management discipline
Annualised cost savings and continued contract discipline drive additional margin growth

Volume/price/mix
Organic revenue growth and price/ volume mix

Summary medium term targets

£4 – 4.5bn revenues

3.5% operating margin

90% cashflow conversion*

Sustainable net cash position with capacity to invest

Sustainable dividend policy: around 3x through the cycle

Equity raise of £190m to £240m enables: Consistent & profitable growth

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* Defined as operating cash flow less capital expenditure (excluding lease payments)

Summary & Outlook

Andrew Davies, CEO

Summary

Significant financial and strategic progress

Materially improved results despite COVID-19 impact

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- £4 – £4.5bn revenue at c. 3.5% margin
- 90% cash conversion and sustainable net cash balance
- Sustainable dividend policy

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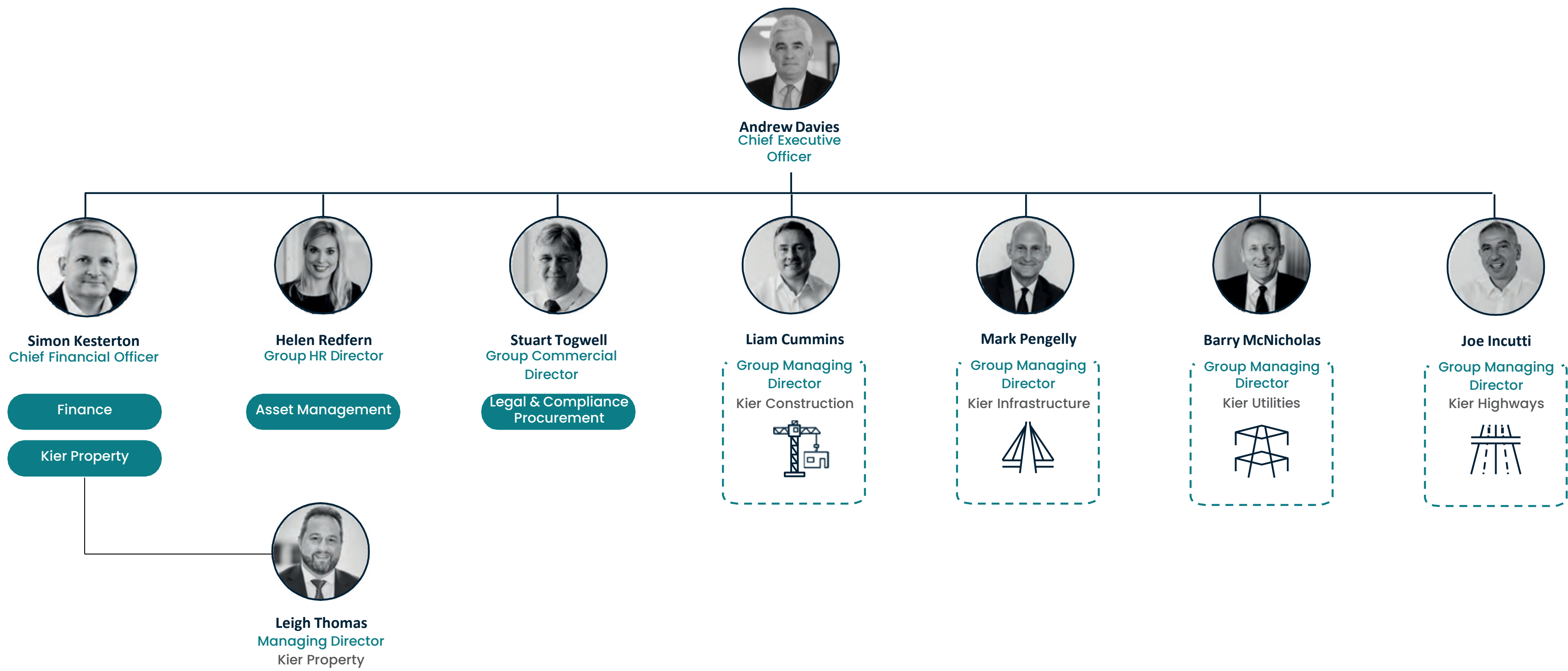
Outlook

Sustainably delivering infrastructure which is vital to the UK

1	**Well placed to benefit from UK Government spending**
2	**Positive trends continuing into H2**
3	**Confident of further progress this year in line with our expectations**
4	**Medium term value creation plan**

Appendix

New management team



Group Strategic Framework

Refreshed Purpose, Vision and Strategy underpin the implementation of Performance Excellence culture and values

Purpose:
To sustainably deliver infrastructure which is vital to the UK

Vision:
Be the UK leading construction and infrastructure services company

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

Strategic actions:
Simplify and focus Kier
Improve cash generation
Strengthen balance sheet

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Strength of frameworks

Maintaining and growing central and local framework positions

- Awarded places on long-term frameworks and contracts worth up to **£107bn** (total OJEU values)
- Driving long-term revenue streams, barriers to entry and strengthened customer relationships underpinning strong order book

Infrastructure Services	Construction
▪ **7** national framework positions ▪ **21** regional framework positions ▪ Typical durations 4 to 8 years ▪ Highways Frameworks and contracts secured up to 11 years ▪ Total advertised OJEU value over: **£17bn**	▪ **10** national framework positions ▪ **34** regional framework positions ▪ Crown Commercial Services Framework secured up to November 2026 ▪ Typical framework duration 4 years; average of 2 years remaining ▪ Total advertised OJEU value circa: **£90bn**

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Strong customer relationships

Strong customer relationships with UK Government and regulated bodies

Central Government Clients

Department for Education · Ministry of Justice · Crown Commercial Service · Department for Work & Pensions · Defence Infrastructure Organisation · Department of Health · Environment Agency · highways england · hs2 engine for growth · Transport for London · NetworkRail

Wider Public Sector Clients

Shropshire Council · Hampshire County Council · Aberdeenshire Council · Cornwall Council · Essex County Council · Suffolk County Council · GCC · Leicester City Council · Northamptonshire County Council · Manchester City Council · Kent County Council · Cyngor Sir Gâr Carmarthenshire County Council · Exeter City Council · Surrey County Council · Birmingham City Council · Cambridgeshire County Council · Cardiff Caerdydd · Durham County Council

Regulated Sector Clients

CityFibre · anglianwater · Scottish Water · openreach · Virgin media · Thames Water · UK Power Networks

Frameworks

Procure Partnerships Framework · Frameworks Scotland · Procure 22 · London Construction Programme · LHC · Scf · YORbuild · NWCH · Crown Commercial Service Supplier · NHS London Procurement Partnership · Scape Group · PAGABO · nepo · NHS SBS Approved Framework Supplier · sewscap

- "Strategic supplier" to UK Government and regulated bodies
- Commercial and engineering relationships developed over many years
- Regional presence enhances client relationships across the UK
- Contract awards typically made for project life creating long-term workstream
- Framework appointments providing opportunities for future work with acceptable levels of risk

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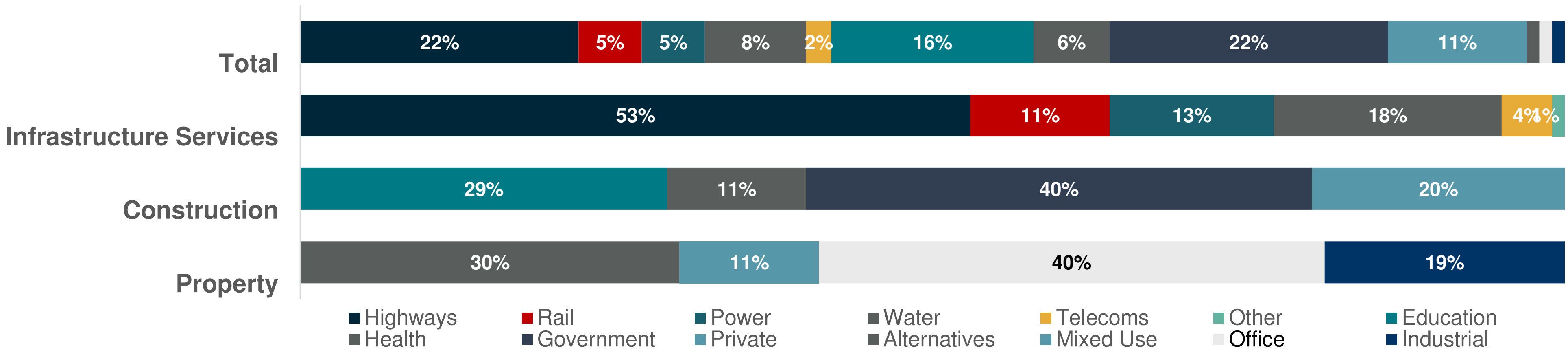
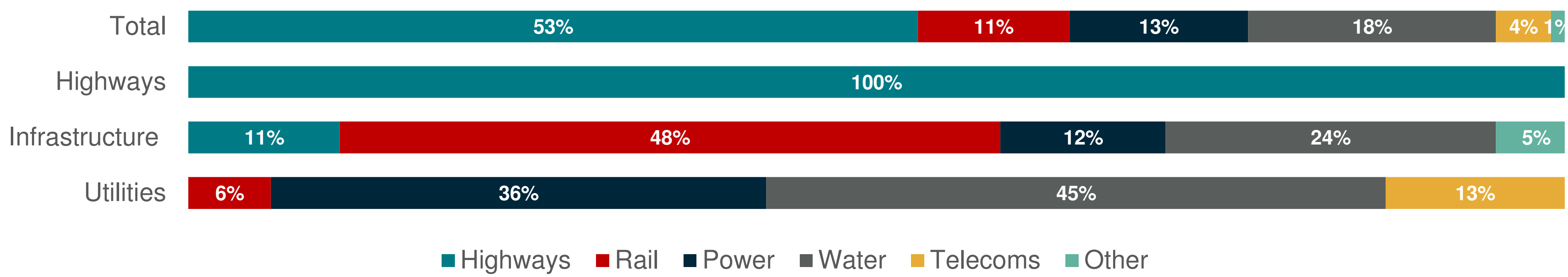
Group Revenue Analysis

Total Group

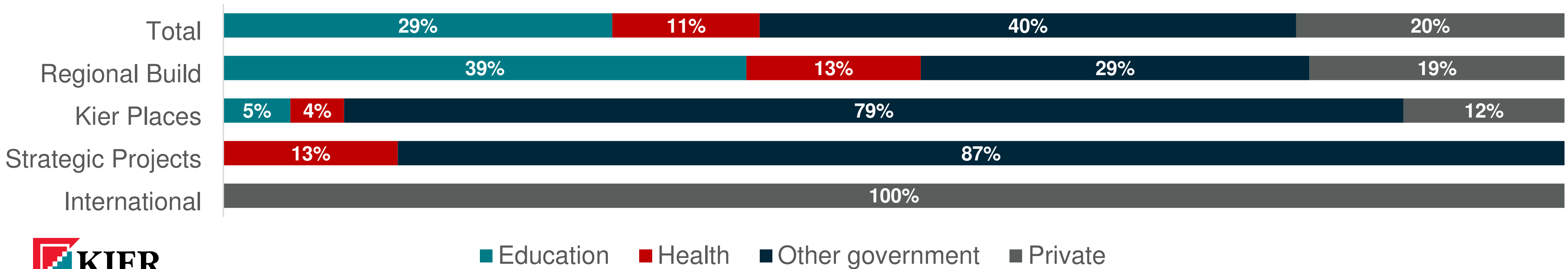


Segmental Revenue Analysis

Infrastructure Services



Construction



Pension

Revised schedule of pension payments agreed

£'m	31 Dec 2020	31 Dec 2019	Δ
Group Pension Schemes			
Market value of assets	1,976.0	1,780.1	195.9
Present value of liabilities	(1,977.4)	(1,777.2)	(200.2)
Net (deficit) / surplus	(1.4)	2.9	(4.3)
Deferred tax	0.3	(0.5)	0.8
Net pension (liability) / asset after deferred tax	**(1.1)**	**2.4**	**(3.5)**

- As at 31 December 2020, Group's pension schemes' deficit was £1.4m (HY19: surplus £2.9m)
- Revised deficit recovery plan agreed with Trustees of £4.5m in calendar year 2021 and £9m p.a. thereafter
- Additional contributions payable on a variable basis subject to Kier meeting certain Adj. EBIT hurdles

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Strategic Actions

Successful disposal of Kier Living announced on 16 April 2021

- Identified as non-core as limited operational synergies
- Significant capital requirements to grow business
- **Agreed sale to Terra Firma announced on 16 April**
- Subject to shareholder approval
- Completion expected by mid-June
- Classified as discontinued operations

£m	
Gross Proceeds	**£110m**
Estimated transaction costs	£10m
Estimated net proceeds	£100m
Use of Proceeds	
Reduction in net debt	£75m
Pension contributions	£10m
Net Impact	**£15m**

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