Registration number: 01611136

Kier Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 30 June 2017

Kier Limited

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Kier Limited

Company Information

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Kier Limited

Strategic Report for the Year Ended 30 June 2017

The directors present their strategic report for Kier Limited (the "Company") for the year ended 30 June 2017.

The Company is a member of the Kier Group plc ("Kier") group of companies (the "Kier Group").

Group Strategy
To achieve the Kier Group's Vision 2020 there are six key objectives:

1) Operate a safe and sustainable business;
2) Accelerate growth to be a top three player in our chosen markets;
3) Achieve top quartile performance and efficiency;
4) Provide sector leading customer experience, for clients and for their customers;
5) Attract and retain highly motivated, high performing teams; and
6) Embracing innovation and technology across our business.

Fair review of the business
Property
Property revenue was £182m (2016: £169m), generating an underlying operating profit of £25.8m (2016: £21.4m), reflecting the usual second half timing of transactions. The statutory operating profit for the year was £18.1m (2016: £16.0m). This good result was achieved with average capital invested of £113m, peaking at £145m, through continued support of co-investors and funders and utilising the Kier Group's cash flow.

The division, with over 80% of its activity taking place outside London and a focus on modest value schemes, achieved a ROCE of 23%, well ahead of our 15% target. It continues to have a healthy development pipeline of opportunities in excess of £1.4bn, providing 10 years of development scheme visibility.

Immediately after the Brexit vote, £60m was invested in new developments, taking advantage of market opportunities during the first quarter. This investment underpinned an average capital employed in the 2017 financial year of £113m. Twenty development schemes were sold during the year. The division also continues to offer its specialist skills as part of a wider Kier Group offer to many of our clients who are seeking to maximise the return from their property assets through estate rationalisation.

The Property division has a diversified national portfolio of multi-sector, high-quality projects. In the industrial sector, following the launch in 2017 of the Logistics City brand, the first successful sales were achieved with the Logistics City Thurrock scheme, which was sold in May 2017 following pre-lets, and Logistics City Frimley, which was forward funded and sold in June 2017. Occupier interest has remained robust and lettings were progressed within our Trade City portfolio, with Thurrock 55% let or under offer, Oxford over 46% let or under offer and Winsford 100% let or under offer and with future opportunities in Basingstoke, Reading and Andover secured. Construction of the 72,000 sq ft Trade City Watford was completed and lettings are progressing well with 47% either secured or under offer to date.

In the office development sector, the 100,000 sq ft office in Sovereign Square, Leeds, built by the Construction division, was completed in October 2016 having been pre-let and forward sold. Speculative investment in the London market is very limited, with the development of the 60,000 sq ft office in Hammersmith, in joint venture with Investec, completed in March 2017. In London, 58 Victoria Embankment, the 46,500 sq ft office development in which Kier held a 16% equity stake, was completed in October 2016 having been presold to a charity. During the year the 42,000 sq ft office in Foley Street, London was forward funded and sold, with construction being undertaken by the Construction division.

Fair review of the business (continued)

Following the Brexit referendum, the business took advantage of market opportunities and strengthened its future pipeline with the acquisition of six office schemes in Basingstoke, Glasgow, Leeds and Newcastle and two developments in Manchester. All of these schemes are in key city centre locations and either have existing tenants or present good regional opportunities in this market sector. One of the office developments in central Manchester was forward sold in November 2016 once further tenants had been secured. In September 2017, the office development in Newcastle was 50% sold after securing further income and increasing value.

In the retail and mixed-use sector, which remains buoyant, phase 2 of the leisure scheme in Walsall was fully let before construction commenced in January 2017 and a 45,000 sq ft pre-let retail scheme in Wakefield was forward sold with construction commencing in May 2016 and completing in August 2017. Further opportunities have been secured in Hemel Hempstead, Thornton-Cleveleys and Durham for retail schemes.

The £400m Watford Health Campus project continued to make good progress with the completion of infrastructure works in October 2016 and the completion of the first commercial scheme, a 72,000 sq ft Trade City with strong occupier demand. Planning was secured for 95 units of the first residential scheme with construction due to commence later in 2017.

Construction commenced in Southampton on the 413-bed student accommodation scheme, with construction due to complete in August 2018. In September 2016, financial close was reached to design, build, finance and maintain the £25m Ayr Academy in South Ayrshire and the £41m William McIlvanney Campus in Kilmarnock.

The Kier Group's investment portfolio holds seven schemes; two at preferred bidder stage, two in construction and three in operation. The committed equity investment stands at £26.8m (2016: £29.5m) of which £22.4m (2016: £14.7m) has been invested to date. The directors' valuation of the investment portfolio is £32m (2016: £41m).

In April, Kier Group sold its joint venture interest in Biogen, the renewable energy business. This resulted in a loss on sale of £7.6m and a cash inflow of £10m.

Property outlook

As local authorities continue to face fiscal challenges, the division is seeing increased local authority client interest in the division's property investment and development capabilities. The Property division is a top three trader developer in the UK, and will undertake further regional expansion this year into Birmingham and the West Midlands. This market position, supported by ongoing investor interest, continues to drive good rental yields and the regional property market remains robust. With a development pipeline of £1.4bn, providing 10 years of scheme visibility, coupled with Kier Group's strong cash flow, it is anticipated that Kier Group capital investment will peak at £175m in the year ahead and reach an average of £200m in 2020 and that ROCE will exceed 15%.

Residential

The Residential division's activities are increasingly focused on mixed tenure development, with two-thirds of its activity working with local authorities, housing associations and other clients. All of the division's activity is outside London. The regional profile of the business provides a stable environment for mixed tenure affordable house building with demand exceeding supply.

Mixed tenure

With continuing budgetary challenges in local authorities, yet increased demand for housing, the business is seeing high levels of interest in funding solutions and joint ventures. Revenue in the mixed tenure business increased 8% to £202m with an average invested capital of £39m. The mixed tenure business achieved approximately 1,450 completions (2016: 1,400) in the year.

Fair review of the business (continued)
The business continues to look at opportunities nationally and has successfully worked with local authorities to optimise the value of their land assets. It has extended its geographical reach into new areas such as south Wales and increased its focus on the south-west. The launch of joint ventures such as New Communities Partnership and Northern Ventures in 2016 has generated significant interest and discussion with local authority partners as they seek new ways to extract value from their land assets. Northern Ventures activity is increasing with three new schemes in Stokesley, Easingwold and Driffield, delivering around 700 units with Together Housing Association.

Residential outlook
With a continued imbalance in the UK supply and demand of housing, good availability of mortgages and relatively low interest rates, the division is well positioned to pursue growth, particularly through the demand for mixed tenure housing. We continue to execute our strategy to grow the mixed tenure business whilst maintaining the scale of the private business at 700 - 800 units per annum. Through the use of joint ventures, the division continues to offer clients capital efficient solutions which are of increasing interest. The division is also focused on extending its presence into the M3/M4 corridor enabling it to work more closely with the housing maintenance business, providing combined services to private and affordable housing providers.

We will continue to grow our mixed tenure business and work towards our Vision 2020 goal of 15% ROCE.

Construction
The Construction division delivered a strong year with a record £3bn of new contracts awarded in the year. Revenue was up 6% to £2,019m (2016: £1,901m) with an underlying operating profit increase of 2% to £39.8m (2016: £38.9m). The statutory operating loss for the year was £10.1m (2016: £3.2m). Underlying operating margins were maintained around 2.0% (2016: 2.0%) and the working capital performance was good. The current order book of £4.2bn for secured and probable work, excluding framework awards, represents more than 90% of forecast revenue for the 2018 financial year, on increasing volumes.

UK building
The building market was buoyant during the year assisted by the re-emergence of a number of major public sector projects. Our success on frameworks and our selective approach to new work, focusing on risk management and client relationships, has seen the business deliver another strong and consistent performance. The division benefited from continued demand particularly in the biotech, science and student accommodation markets. Wales, the south-east and specifically the Cambridge market have been particularly encouraging.

In the private health sector, we secured one of four positions on the £500m Private Investment Construction (PIC) healthcare framework and were appointed preferred trader for £75m of new private hospital developments.

With greater budgetary challenges, there is an increasing trend for public sector clients to procure capital building works through frameworks. Positions on the following frameworks were secured in the second half:
- £6bn LHC Schools and Community Buildings frameworks;
- £1bn+ Notting Hill Housing framework; and
- all five lots of the £700m Cambridge County Council framework.

In addition Kier is shortlisted for inclusion on the following frameworks:
- £8bn Education and Skills Funding Agency Construction framework; and
- the national and regional integrated healthcare supply chain NHS Building for Wales National and Regional frameworks.

Fair review of the business (continued)
Kier has maintained and grown its presence in the health and education sectors. In the health sector, our position on the Department of Health ProCure21+ and ProCure22 frameworks has resulted in the award of £109m of work in the year. In the education sector, over £200m worth of projects have been awarded or are at preferred bidder status. Kier has a turnover of over £600m in the education sector and expects further growth in the tertiary education sector.

During the year, over 147 projects, with a combined value of £142m, were secured through the Scape National Minor Works framework where Kier is the sole provider for projects up to £4m throughout the UK. Kier is also one of six framework partners currently bidding for the first phase of the construction of three prisons worth c£400m.

Major contract awards in the year also included the £57m University of Sheffield award and the £53m Hoxton Hotel in London.

Infrastructure
Kier continued to work on civil engineering projects across a broad range of sectors including highways, rail, ports and coastal, aviation, energy, water and utilities and nuclear, delivering a steady revenue performance. The division is seeing a particular increase in transport opportunities with the HS2 joint venture award worth a combined £1.5bn, which will deliver revenue from 2018, and three new Smart motorway projects covering design and survey work on the M20 and M23 and an additional project on the M6 as part of the Collaborative Delivery framework for Highways England. Other new awards in the year included a £38m contract on the A13.

Work was ongoing at Hinkley Point C and the Farringdon Crossrail project during this financial year and will continue into next year. The Mersey Gateway project, despite some challenges, achieved the initial completion milestone with the toll road crossing, which opened on the 14th October 2017.

Given the higher risk profile of some infrastructure contracts, the business is focused on improving margins by winning high quality work with repeat key clients, whilst continuing to focus on risk management, contract terms and conditions and cash performance.

International
In our international construction business, focus is on the continued delivery and development of the business in the Middle East. Despite the sustained low oil price, UK Export Finance (UKEF) continues to attract clients and we are experiencing a steady number of schemes coming to market. During the year, three new contracts totalling around £400m were secured using UKEF including two staff accommodation projects and the new, multi-purpose, 20,000-seat Dubai Arena.

The final accounts on the two Mass Transit Railway (MTR) contracts in Hong Kong have been agreed and we expect the practical completion of the Caribbean project imminently. The closure of the Caribbean and Hong Kong businesses has resulted in non-underlying charges of £86m.

In addition, the sale of Mouchel Consulting in October 2016 generated a profit on sale of £40m in the 2017 financial year.

Construction outlook
The Construction division continues to perform well. With its established framework positions and selective approach, it is able to take advantage of a broad range of public and private sector opportunities. Our strength in the education and health markets positions us for growth in these markets, particularly the tertiary education market.

Fair review of the business (continued)
The division's short-term future performance is underpinned by the UK building business while the infrastructure business provides good medium-term prospects. Significant framework success provides access to a £14bn addressable market. The Middle East business provides some diversity to the cycle of the UK economy.

The division has a well balanced workload, split equally between private and public sector clients. The performance of the three businesses, particularly UK building, have pushed the revenue of the overall division above £2bn this year, and more importantly, have delivered a good 2% operating margin, keeping the division on track for its Vision 2020 target. With an order book of £4.2bn, the division has more than 90% of forecast revenue secured for FY18.

Services
Services revenue was up 2% to £1.7bn (2016: £1.7bn), reflecting the increased expenditure by Highways England in the second half. Underlying operating profit was £87.0m (2016: £86.1m), up 1%. The statutory operating profit was £54.5m (2016: £5.6m). An underlying operating margin of 5.2% reflects the stable and consistent performance of the business.

The order book at 30 June 2017 of £4.7bn (2016: £5.3bn) reflects the run-off of long-term contracts, albeit the bidding pipeline remains good, particularly in highways. More than 90% of targeted revenue for 2018 is secured; moreover, the order book does not include potential contract extensions, which, if included, would add more than £2.5bn, and provide visibility of workload beyond 2020.

Approximately 60% of the division's capabilities relate to the provision of infrastructure services in the highways and utilities sectors. Together with its capabilities in construction, Kier is one of the UK's leading infrastructure businesses with an annual revenue of approximately £1.5bn.

Infrastructure services - Highways maintenance
The Kier Group maintained its position as the UK's leading provider of strategic maintenance and management. Revenues increased significantly in the second half, reflecting Highways England's phasing of works. Moving forward, Highways England is focused on reducing the historic peaks and troughs of spending, providing greater predictability across the year. We expect the current level of spending to continue with funding for Road Investment Strategy 1 remaining positive. During the year, the following Highways England contracts were mobilised:
- a 15-year, £140m repair and maintenance contract for Area 13 covering Cumbria;
- a two-year, £50m maintenance services contract for Areas 6 and 8 covering East Anglia and the East of England; and
- a five-year, £40m design service contract for Areas 1 and 2.

The local authority market remains active albeit with budget pressures, which is resulting in new opportunities and clients looking at new ways to deliver services. The devolution of funding and decision-making, both locally and regionally, is now starting to gather pace with the establishment of Regional Transport Bodies, mayoral authorities and increased collaboration between authorities. New local authority awards mobilised in the period were:
- a one-year, £40m extension to the Lincolnshire local authority contract;
- a two-year, £27m extension to the Harrow Highways contract; and
- a five-year, £270m extension to the Suffolk Highways contract.

In the local authority market, we have visibility of the order book beyond 2020 and there is a steady pipeline of projects that provide good opportunity for growth.

Fair review of the business (continued)
In Australia, continued population growth is resulting in increased demand for road projects including Smart Motorway projects. Beyond the Kier Group's highways joint venture in Australia, the highways design centre in Sydney continues to be awarded highways design contracts by third parties, reflecting their increased profile in this market.

Infrastructure services - Utilities
The utilities business focuses on four sectors: water, power, gas and telecoms. In the water sector, new contracts totalling £43m were awarded in the year, including a two-year Severn Trent Water Asset Maintenance Service (AMS) extension.

The business continues to invest in alliances, enabling our teams to work more closely with our clients on improving customer delivery.

Clients in the water sector are already preparing for the Asset Management Plan 7 (AMP7) bidding cycle which takes place in 2020. Yorkshire Water, Severn Trent Water and Welsh Water are all coming to market early and preliminary discussions are ongoing with these clients. It is anticipated that the OfWat regulatory framework for AMP7 will be more challenging than AMP6, with more stretching targets and a focus on resilience, customer service, affordability and innovation.

In the power market, new contracts totalling £53m were awarded by SGN. With the completion of the National Grid Gas Distribution separation and the growing demand for power and gas, other opportunities will arise in this market.

On 12 July 2017 we acquired McNicholas, a leading player in the multi-utilities market, making Kier a top three player in the utilities sector. McNicholas is an established UK engineering services provider in the telecommunications, gas, power, water, renewable energy and rail sectors and has a client base which includes Virgin Media, Network Rail and UK Power Networks. The acquisition builds on Kier's strategy to accelerate growth and hold leading positions in its chosen markets.

Infrastructure services outlook
We expect that Highways England maintenance activity levels will continue as part of the strategic highways funding commitment to 2020 through the current Road Investment Strategy (RIS). We continue to work with Highways England as they look at their future operating model and look forward to participating in the Routes to Market and £8bn framework procurement initiatives which will provide significant future opportunity for the Kier Group.

The utilities market presents significant opportunity. With the UK population growth expected to increase, the demand for services is increasing across a broad range of markets including water, energy and telecoms. The acquisition of McNicholas extends the Kier Group's presence in this marketplace, increasing our capabilities as well as giving increased sector and geographic presence.

Property services - Housing maintenance
The sector continues to undergo significant change, with social landlords challenged by budget reductions and the recently introduced Universal Credit arrangements providing impetus to review how housing associations manage their portfolios. With the anticipated merger of housing associations, Kier is one of a select few service providers with the capacity to deliver large contracts and the end-to-end solution clients are seeking.

During the year and since year end, a number of contracts have been awarded including the five-year £100m Powys joint award with the Workplace Services business, and a range of planned maintenance contracts with Sheffield City Council.

Fair review of the business (continued)

Property services - Workplace Services
Workplace Services has established itself as a provider of end-to-end workplace solutions, spanning hard facilities management, soft facilities management, design and asset management and wider business services. The business has continued to grow in both the public and private sectors, particularly in the arts and heritage sectors.

New awards in the period totalling c£40m included:
- a two-year contract with the Royal Berkshire Fire and Rescue Service providing hard FM;
- estates transformation design work with the Mayor's Office for Policing and Crime (MOPAC);
- a three-year hard FM contract with NHS Business Services Authority; and
- a one-year total FM contract with Sensor City Liverpool, part of the John Moores University complex.

Successful mobilisations took place on the Powys joint award involving Housing Maintenance. In addition, following the award of the Capital City College Group contract earlier this year, an extension is under discussion for a further five City and Islington college sites with other additional opportunities ongoing with the London Borough of Camden and Careers Wales.

Kier has also successfully secured places on a number of frameworks including the two-year £2.8bn Crown Commercial Services Project Management and Full Design Team Services frameworks, available to the whole of the public sector, for the provision of multi-disciplinary professional consultancy services.

Property Services outlook
With cost being a major driver for clients, our Property Services teams are working closely with them to transform their data collection and interpretation of that data to deliver appropriate solutions. Investment in our front-of-house systems has enabled our teams to interact seamlessly with our clients' systems and we continue to look at smarter ways of working together. The introduction of universal credit will give the Housing Maintenance business greater opportunities as landlords seek new ways of managing their portfolios.

Following the Grenfell Tower disaster, there has been a shift in spending priorities by social landlords with the reallocation of funds into fire risk assessment and prevention. The Property Services business are involved in ongoing compliance and health and safety to support a number of local authorities as they undertake assessments of their property portfolios.

Environmental Services
The operational performance of the Environmental Services business remains challenging. In the year, an £11.1m exceptional charge was taken for the East Sussex waste contract which was terminated, and for the early termination of another waste contract in 2019, for which terms have been agreed, further reducing the Kier Group's exposure to recyclate pricing.

Services outlook
The Services division, which accounts for approximately 50% of the Kier Group's profits, is performing well. It is focused on providing essential, day-to-day routine services to clients and communities. Against a backdrop of financial pressures for our clients, there are opportunities to discuss future procurement models and consider opportunities arising from the new mayoral authorities, which will result in greater regional budgetary control and increased collaboration between authorities. Having secured more than £1bn of new work in the year, the Services division now has an order book of £5.3bn. This provides good long-term visibility of our workload, with potential extensions adding a further £2.5bn, which is more than 90% target revenue secured for FY18.

Key Performance Indicators

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

	Unit	2017	2016
Order book	£bn	8.9	8.5
Underlying operating profit margin	%	2.7	2.8
Customer experience (totally or mostly satisfied)	%	91	90
Safety AIR	AIR	130	211

The Company uses the accident incident rate (AIR) to measure safety. Our aim is to achieve year-on-year improvement in AIR and remain below the Health and Safety Executive benchmark for the UK.

Employee engagement: Our people are on the front line of the delivery of essential services which means that their overall levels of satisfaction and engagement are a key factor in our ability to deliver a great service for our clients. We measure satisfaction through the Kier Group biennial employee survey. The last survey, completed in 2016, resulted in employee engagement of 60% (2014: 54%) for the Company's employees. The next survey will be in 2018. In between we undertake 'pulse' surveys to test progress, with the most recent returning an increased participation of 73%, but a slight decline in engagement to 56%. The feedback, which we are addressing, particularly reflected the volume of activity and change within a number of businesses and the need to continue to develop people.

Principal risks and uncertainties

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

On behalf of the Board of the Company's ultimate parent company, Kier Group plc, a Risk Management and Audit Committee identifies the risks that it considers most likely, without effective mitigation, to have an impact on the Company and wider Kier Group and its strategic priorities. If emerging risks are identified in between these annual reviews, these are incorporated immediately into the risk management process. The following sets out the principal risks impacting the Company and how they are mitigated:

Health and Safety

The Company's activities are inherently complex and potentially hazardous and require the continuous monitoring and management of health, safety and environmental risks. The Board has assessed that this risk remains high but unchanged from last year. Failure to meet safety standards and/or ineffective management of safety requirements could result in the following, injury/death to employees, members of the public or third parties; reduced ability to bid for and win work; reputational damage; financial penalties arising from fines, claims, legal action, project delays; and failure to meet investor expectations.

To reduce the risk the Company has put in place an updated Safety, Health and Environment (SHE) management system aligned to the needs of the operational businesses under a framework of Kier Group governance; a behavioural change programme focusing on operational safety; robust major incident response protocols; visible leadership programme designed to promote a 'safety-first' culture; and revised accident investigation protocols to ensure robust investigation and implementation of lessons learnt.

Sustainability
With the increasing importance of sustainability and social value in clients' evaluation of contract awards, and the emergence of greater stakeholder awareness, progressive legislation, and enforcement activity, this risk is included as a new principle risk and uncertainty (PRU).

If the Company was unable to meet its sustainability requirements, then there could be a risk of non-compliance with legislation; bid exclusion; reputational damage; failure to meet customer expectations; significant financial penalties/loss of contracts; and significant failure to meet investor expectations.

The Kier Group's commitment to sustainability is articulated within a strategy for a sustainable business, Responsible Business, Positive Outcomes (RBPO).

The Kier Group operates a management structure including Board committees, and a Corporate Responsibility Leadership Group (CRLG) which meets quarterly. Between them they review the progress with identified, and emerging, issues across the areas covered by our strategy for a sustainable business.

Membership of the CRLG is drawn from our Kier Group services functions, together with representatives from the operating businesses. It is responsible for assessing sustainability risk and setting appropriate policies and direction for Kier.

The Kier Group has recognised that delivering strong performance across the non-financial focus areas covered by RBPO helps to create value for our business, our investors, our clients and wider society. For example, improving safety and wellbeing leads to less lost time through injury or illness; improved environmental performance can reduce waste of energy and materials, leading to cost savings; and choosing the right subcontractors and supplier partners can lead to an economic boost for the community in which we are operating.

The Kier Group delivers business-wide training programmes to ensure its employees are competent and qualified. We operate a programme of audits to review our contracts and measure performance against expectations, assessing and reporting on recommendations for improvement.

Funding
The Company has a variety of funding needs met by external sources. We have clear metrics to measure volatility and sensitivity in the key indicators of funding risk and have recently undertaken a review which has strengthened our ability to manage this risk. The Board assesses this PRU as unchanged from last year. If this funding were not available or curtailed there is a risk that we could experience, failure of business or one stream of the business; smaller gains or margins; failure to achieve profit expectations; loss of investor confidence; and reduced cash generation due to reduced volume growth.

The Kier Group's Investment Committee, chaired by the Group Financial Controller, is responsible for approving capital investment and optimising the allocation of capital. Cash forecasting and working capital management remain key performance indicators for the business, with their ability to generate positive cash flow demonstrated in the year.

The Property division uses a number of joint ventures to manage risk and enhance returns. Joint venture partners are carefully selected to mitigate operational risk within projects. By entering into joint ventures, the Company can ensure that the Property division is not over-exposed to any one sector, geographical location or individual development.

Market and Sector Performance
The Company's strategy depends on the economic performance of the UK, in particular, and the markets and sectors in which it operates. Kier has a breadth of capabilities and operates across a number of diverse market sectors. The Board has extended this PRU (previously 'the market') to reflect the importance of our sector decision-making and performance, as well as the general performance of the economies in which we operate.

Reduced economic activity and expenditure in public, regulated and private sectors would likely result in lower growth or lower revenue for the Company.

Further, investment allocation across the market sectors in which the Company operates is of clear importance; if the Company was to invest too heavily in the wrong sector, then there could be a risk that failure of business or one stream of the business; reputational impact of inappropriate selections; and failure to meet financial expectations.

The Company regularly evaluates future market performance including the impact of macro-economic factors (e.g. population growth, austerity) and the associated market risk of specific events (e.g. Brexit) together with its strategy in those markets.

The Company's strategy is aligned to three core market segments (buildings, infrastructure and housing) which are underpinned by solid long-term fundamentals and where the Company is able to establish a leading market position. The Company's operating structure is largely aligned to these three segments.

Customers
Kier recognises the need to engage effectively with customers and strives to deliver a tailored service that exceeds expectations. Given the importance of customer satisfaction, the Board has identified this as a new PRU.

If we fail to deliver a differentiated customer experience which focuses on proactive relationship management, then there is a risk of failure of the business or one stream of the business; reputational damage; and loss of a key customer or decline in customer loyalty.

Customer satisfaction surveys are undertaken alongside independent customer surveys designed to better understand clients' needs and expectations.

Each business unit/stream has a dedicated business development team which participates in a quarterly review of clients across the UK through eight regional client forums. We have developed key client plans and relationship mapping through the allocation of key account managers to each key client.

Operating model
To build and sustain long-term confidence we must maintain and evolve our operating model to maximise growth and minimise risk. The Board has assessed this as a new principle risk and uncertainty. Failure to maintain operating model efficiency could result in the following risks:
• failure of business or one stream of the business;
• failure to deliver required growth and profitability;
• failure to remain competitive; and
• failure to meet investor expectations.

We maintain a disciplined focus on honing the portfolio by divesting non-core businesses and making acquisitions in line with strategy.

Operating Model (continued)

The Kier Group measures its component businesses against a series of balanced score-cards throughout the year. As a key part of our control processes, we challenge our business units' performance and amend plans on a quarterly basis to ensure that we are on track to meet investor expectations.

We constantly strive to anticipate changes within our business environment and customer requirements as well as implementing efficiencies where appropriate. The recent enterprise resource planning (ERP) implementation and opening of our finance shared services centre are prime examples of this.

We have made ongoing investment in systems to improve our efficiency and management information for example, strengthening back-office systems through the roll-out of Oracle ERP and shared services. These improvements also enable integrated trading/cross-selling and scalability of front-line systems in services businesses, creating operational efficiencies and enhancing competitiveness in certain sectors.

We have implemented a programme of enhanced customer engagement to work as closely as possible with our customers, particularly where the business environment is changing, so we can continue to support them as their priorities evolve.

Contract Management

The Kier Group recognises that effective contract management is at the heart of its business model and is critical to ongoing success and growth. The Board has assessed that given the potential impact of this risk and current external factors, this risk has risen in significance since last year and remains an important focus for the Kier Group.

The Kier Group has a number of large and complex contracts in play at any given time. Dependent on the nature, location and duration of the work and the legal framework of the contract, there is a risk that ineffective contract management and lack of ownership could result in:

- failure of the business or one stream of the business;
- financial impact of failure to deliver on contracts;
- reputational damage;
- subcontractor performance impact;
- wastage of resources; and
- poor management information, reporting, contract data and transparency.

The Kier Group maintains a strong focus on longer-term service contracts. Potential risks are mitigated, controlled and managed through the Kier Group's operating structure, procedures and standing orders. Enhanced emphasis and focus on pre-contract controls has improved the quality of the Kier Group's portfolio of contracts.

Monthly operational and financial contract reviews are held at both business unit and business stream levels. These reviews are supplemented by a formal quarterly review process, which operates across all divisions of the Kier Group.

The operational and commercial functions manage subcontractor performance and relationships across all contracts.

In further mitigation of this risk, the Kier Group's commercial training programme for all front line staff has progressed positively. This programme is designed to ensure a consistent approach to the management of contract risks across the Kier Group. There has also been a focus on upgrading key financial controls across the Kier Group. These improvements have had a positive impact on identifying potentially under-performing contracts.

People
Our people remain a key pillar of our business. Ensuring the right people are in the right roles is critical to our future success and growth. The Board has assessed that the level of risk in this area is the same as last year. We need to attract and retain the right talent to enable achievement of our strategic aims. Failure to do this risks our delivery and growth as follows:
• failure to meet a specific business need or contract requirement;
• reputation damage, both corporate brand and employment brand;
• loss of project specialisms;
• over-reliance on key staff; and
• loss of key skills.

The key mitigations and controls for these risks are as follows:

• Focus on reduction of voluntary turnover of employees, in particular new hire turnover, through better hiring for fit, improved induction and on-boarding, and employee engagement initiatives.
• Launch of market-benchmarked reward and benefits offer.
• Strategic workforce plan implemented to provide insight on forecast skills needs and headcount and insight on skills and retention hot spots or systemic issues to target.
• Employer brand embedded in talent attraction and reflected in internal employer value offer.
• Talent fast-track programme in place to retain and progress key talent at all levels.
• Targeted action taken to improve the diversity mix and inclusive work climate (including internal target-setting).

Innovation
We operate in an increasingly dynamic and changing environment. To counter the risks associated with this and, most importantly, to exploit the opportunities it presents, we must embrace innovation and capitalise on technology advancements to ensure we maintain our market position. Failure to manage this risk could result in:
• loss of new and current business to competitors;
• new market entrants lead the way on innovation to our detriment;
• loss of staff due to lack of innovation or failure to act on ideas;
• innovation costs not being managed effectively; and
• negative internal and external publicity

The delivery of the Kier Group's services already incorporates innovation and technology at a number of levels, whether through the built environment it is delivering (e.g. smart motorways, energy-efficient buildings) or the way in which it delivers its services (e.g. BIM, digital technology, predictive data, new construction methods).

As part of its plans to further promote innovation and technology, the Kier Group will:
• ensure that employees in every business have access to online innovation and idea-sharing platforms;
• establish a clear digital strategy supported by an information management strategy and digital life skills programme;
• launch a £1m pa seed fund (the Kier Accelerator) to encourage new ideas/investment;
• increase the rotation of candidates across its graduate/early career programme to further increase vibrancy of thinking and seeding of ideas;
• increased external marketing activity to position our existing innovation; and
• align leadership and development programmes to include a clear focus on innovation and technology.

Non-underlying items
The Company has materially simplified its operating activities over the last two years following the acquisition of the Mouchel Group. The portfolio simplification, changes in laws and regulations and the sustained low level of commodity prices have resulted in a number of non-underlying charges in the year, as disclosed in note 8 to the financial statements:

Caribbean: the closure of the Caribbean business following the agreement of the final account with a client on a challenging project;
Hong Kong: the closure of the Hong Kong business and the agreement of the process to settle the final accounts;
Mouchel Consulting: the sale of Mouchel Consulting in October 2016;
Biogen: the sale of Kier's joint venture interest in Biogen, the renewable energy business, in April 2017;
HSE sentencing guidelines: a provision relating to a potential increase in fines for historic health and safety incidents following the introduction of new sentencing guidelines;
Environmental contract curtailment: the effects of reduced recyclate income and the curtailment of the East Sussex environmental contract four years earlier than its stated termination date.

During the year the Company also recognised a non-cash amortisation charge of £22.3m (2016: £21.6m) and finance charges of £2.9m (2016: £2.8m). The amortisation charge primarily relates to the contract rights from acquired businesses, in particular Mouchel and May Gurney.

Approved by the Board on 20 December 2017 and signed on its behalf by:

....
B E J Dew
Director

Kier Limited

Directors' Report for the Year Ended 30 June 2017

The directors present their report and the audited consolidated financial statements for the year ended 30 June 2017.

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

N P Brook

B E J Dew

H J Mursell

N A Turner

C Veritiero

Principal activity
The principal activities of the Company and its subsidiaries (together "the Group") are property, residential, construction and services.

Dividends
During the year no final or interim dividend was paid (2016 - none).

Financial instruments

Objectives and policies

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

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

On behalf of the Board, the RMAC identifies the risks that it considers most likely, without effective mitigation, to have an impact on the Company and its strategic priorities. If emerging risks are identified in between these annual reviews, these are incorporated immediately into the risk management process.

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

The Group relies on Kier Group borrowing and bonding facilities. Without these, revenue and profit would reduce. Cash flow is forecast regularly to provide up-to-date and accurate information on the Group's current cash position and its future requirements. Kier Group level borrowing facilities were renegotiated and extended on 6 July 2017. The Kier Group has strong, long-term relationships with the providers of its bonding lines and has an in-house team which monitors headroom and advises on bond terms and conditions.

Political donations
Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2016 - Nil).

Employees
As a Group, Kier is committed to ensuring that the Group is free from discrimination on the basis of gender, colour, ethnic or national origin, disability, age, marital or civil partner status, sexual orientation or religion. Diversity of talent and experience is essential for the continued growth of Kier. Goals have been set to improve the diversity mix of graduates, apprentices and trainees into the Group.

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

Further information on the Group's people and communities policy is set out in the Corporate Responsibility Report for 2017 which is available at www.kier.co.uk.

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

Corporate responsibility
The Kier Group attaches great importance to its corporate responsibility, as evidenced by the Responsible Business, Positive Outcomes section in the Kier Group plc 2017 Annual Report and in its Corporate Responsibility Report for 2017, which is available at www.kier.co.uk. As a member of the Kier Group, the Company abides by the same principles.

Safety, health and environment
The health and safety of all those who visit and work at the Group's sites, together with the protection of the environment are key priorities for Kier.

The Kier Group Safety, Health and Environment ('SHE') Committee, continues to seek improvement in the management of SHE risks in the workplace.

The role of the Committee includes:
• Ensuring that management develops and implements the Group's strategy with respect to SHE matters;
• Encouraging management's commitment and accountability with respect to managing the Group's SHE risks;
• Reviewing and, as necessary, approving material Group-wide SHE initiatives, policies and procedures;
• Receiving reports on any major SHE incidents and ensuring that management communicate the 'lessons learned' from those incidents across the Group; and
• Monitoring and challenging management on the Group's performance against SHE targets.

For further information on Kier Group's activities with regards to SHE matters, please see the Kier Group plc 2017 Annual Report (available at www.kier.co.uk).

Future developments
The Group's future developments are set out in the Fair review of the business section of the Strategic Report.

Going concern

The Group reported a statutory loss for the year, principally because of a significant level of non-underlying items. However, the Group has significant financial resources, long-term contracts and a diverse range of customers and suppliers across its business activities. In addition, the Company's parent company, Kier Group plc, has access to significant committed facilities with banks and other lenders. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

Important non adjusting events after the financial period

On 12 July 2017, the Group acquired the entire share capital of McNicholas Construction (Holdings) Limited ("McNicholas"). For further details please refer to note 34 to the financial statements.

Directors' liability insurance

The articles of association of the Company entitle the directors of the Company, to the extent permitted by the Companies Act 2006 and other applicable legislation, to be indemnified out of the assets of the Company in the event that they suffer any expenses in connection with certain proceedings relating to the execution of their duties as directors of the Company.

In addition, Kier maintains insurance for the directors and officers of companies within the Kier Group to cover certain losses or liabilities to which they may be exposed due to their office.

Reappointment of auditors

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

Disclosure of information to the auditors

Each of the persons who are directors at the time when the Directors' Report is approved has confirmed that:

• the consolidated financial statements, which have been prepared in accordance with IFRS as adopted by the EU;
• the Strategic and Directors' Report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
• so far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
• they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 20 December 2017 and signed on its behalf by:

....
B E J Dew
Director

Kier Limited

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and 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 the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group and Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union 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 keeping adequate accounting records that are sufficient to show and explain the Group 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 comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are also 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.

Independent Auditors' Report to the Members of Kier Limited

Report on the audit of the financial statements

Opinion

In our opinion:

- Kier Limited'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 2017 and of the Group's loss and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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 Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated Statement of Financial Position and the Company Statement of Financial Position as at 30 June 2017; the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated Statement of Changes in Equity and the Company Statement of Changes in Equity for the year then ended; and the Notes to the Financial Statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditor's 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

Reporting on other information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of our audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report
In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 June 2017 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.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements
As explained more fully in the Statement of Directors' Responsibilities set out on page 18, 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Kier Limited

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

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

....

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

Date: 20/12/17

Kier Limited

Consolidated Income Statement for the Year Ended 30 June 2017

Continuing operations	Note	2017 Underlying items[1] £ m	2017 Non-underlying items (Note 8) £ m	2017 Total £ m	2016[2] Underlying items[1] £ m	2016[2] Non-underlying items (Note 8) £ m	2016[2] Total £ m
Revenue[3]		3,979.4	17.1	3,996.5	3,833.7	3.6	3,837.3
Less share of joint ventures		(125.9)	-	(125.9)	(90.9)	-	(90.9)
Group revenue	6	3,853.5	17.1	3,870.6	3,742.8	3.6	3,746.4
Cost of sales		(3,515.3)	(111.8)	(3,627.1)	(3,405.1)	(29.4)	(3,434.5)
Gross profit		338.2	(94.7)	243.5	337.7	(25.8)	311.9
Administrative expenses		(261.1)	(31.5)	(292.6)	(249.7)	(122.3)	(372.0)
Share of post-tax results of joint ventures		21.0	-	21.0	14.2	-	14.2
Profit on disposal of joint ventures and subsidiaries		5.4	31.0	36.4	2.6	-	2.6
Operating profit/(loss)	7	103.5	(95.2)	8.3	104.8	(148.1)	(43.3)
Finance income		2.4	-	2.4	2.0	-	2.0
Finance costs		(40.0)	(2.9)	(42.9)	(44.7)	(2.8)	(47.5)
Net finance cost	9	(37.6)	(2.9)	(40.5)	(42.7)	(2.8)	(45.5)
Profit/(loss) before tax		65.9	(98.1)	(32.2)	62.1	(150.9)	(88.8)
Income tax (charge)/credit	13	(20.9)	12.6	(8.3)	(10.6)	32.0	21.4
Profit/(loss) for the year from continuing operations		45.0	(85.5)	(40.5)	51.5	(118.9)	(67.4)
Discontinued operations							
(Loss)/profit for the year from discontinued operations	4	(4.1)	-	(4.1)	6.9	-	6.9
Profit/(loss) for the year		40.9	(85.5)	(44.6)	58.4	(118.9)	(60.5)
Profit/(loss) attributable to:							
Owners of the company		39.8	(85.5)	(45.7)	57.6	(118.9)	(61.3)
Non-controlling interests		1.1	-	1.1	0.8	-	0.8
		40.9	(85.5)	(44.6)	58.4	(118.9)	(60.5)

[1] Stated before non-underlying items (see note 8).

[2] Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

[3] Non-underlying revenue relates exclusively to UK Mining operations.

The notes on pages 29 to 102 form an integral part of these financial statements.

Kier Limited

Consolidated Statement of Comprehensive Income for the Year Ended 30 June 2017

	Note	2017 £ m	2016[1] £ m
Loss for the year		(44.6)	(60.5)
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit liabilities	25	(29.3)	47.6
Deferred tax credit/(charge) on actuarial losses/(gain) on defined benefit liabilities	13	2.1	(9.1)
		(27.2)	38.5
Items that may be reclassified subsequently to profit or loss			
Share of joint venture fair value movements on cash flow hedging instruments		(2.2)	(0.1)
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments	13	0.4	-
Foreign exchange gains on long-term funding of foreign operations		1.7	9.6
Foreign exchange translation differences		1.1	(1.0)
Foreign exchange movements recycled to the income statement[2]		(3.7)	-
		(2.7)	8.5
Total other comprehensive (expense)/income for the year		(29.9)	47.0
Total comprehensive expense for the year		(74.5)	(13.5)
Total comprehensive income attributable to:			
Owners of the company		(75.6)	(14.3)
Non-controlling interests		1.1	0.8
		(74.5)	(13.5)
Total comprehensive (loss)/income attributable to equity shareholders arises from:			
Continuing operations		(71.5)	(21.2)
Discontinued operations		(4.1)	6.9
		(75.6)	(14.3)

[1] Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.
[2] Amounts previously booked in the translation reserve, arising from retranslation of the results and balance sheet of the Group's Hong Kong operations, have been recycled to the income statement following the closure of those operations.

Kier Limited

(Registration number: 01611136)
Consolidated Statement of Financial Position as at 30 June 2017

	Note	2017 £ m	2016 £ m
Assets			
Non-current assets			
Property, plant and equipment	14	89.8	98.9
Intangible assets	15	776.9	768.7
Investments in and loans to joint ventures	16	127.3	130.1
Deferred tax assets	13	9.2	7.1
Trade and other receivables	20	115.8	26.3
		1,119.0	1,031.1
Current assets			
Inventories	19	406.8	432.1
Trade and other receivables	20	823.3	818.9
Income tax asset		5.8	18.3
Cash and cash equivalents	21	835.6	620.5
Other current financial assets	18	-	1.1
		2,071.5	1,890.9
Assets held for sale as part of a disposal group	5	-	18.2
Total assets		3,190.5	2,940.2
Equity and liabilities			
Current liabilities			
Bank overdrafts	21	887.9	613.3
Trade and other payables	28	1,344.8	1,302.2
Loans and borrowings	23	0.7	0.5
Finance lease liabilities	24	9.1	13.5
Provisions	27	19.0	9.4
		2,261.5	1,938.9
Non-current liabilities			
Trade and other payables	28	892.2	856.1
Loans and borrowings	23	1.3	1.1
Finance lease liabilities	24	5.2	12.8
Retirement benefit obligations	25	84.6	87.8
Provisions	27	35.8	47.7
		1,019.1	1,005.5
Liabilities held for sale as part of a disposal group	5	-	13.7
Total liabilities		3,280.6	2,958.1
Equity			
Share capital	22	88.0	88.0
Foreign currency translation reserve		4.8	5.7
Revaluation reserve		2.1	2.1
Cash flow hedging reserve		(2.4)	(0.6)
Retained earnings		(185.6)	(115.2)
Equity attributable to owners of the company		(93.1)	(20.0)
Non-controlling interests		3.0	2.1
Total equity		(90.1)	(17.9)
Total equity and liabilities		3,190.5	2,940.2

The financial statements on pages 22 to 102 were approved by the Board of Directors on 20 December 2017 and were signed on its behalf by:

....

B E J Dew
Director

The notes on pages 29 to 102 form an integral part of these financial statements.

Kier Limited

(Registration number: 01611136)
Company Statement of Financial Position as at 30 June 2017

	Note	2017 £ m	2016 £ m
Assets			
Non-current assets			
Property, plant and equipment	14	31.3	35.8
Intangible assets	15	87.5	50.2
Investments in subsidiaries, joint ventures and associates	16	886.6	810.9
Deferred tax assets		21.5	9.1
		1,026.9	906.0
Current assets			
Trade and other receivables	20	129.4	98.5
Income tax asset		6.1	12.4
		135.5	110.9
Total assets		1,162.4	1,016.9
Equity and liabilities			
Current liabilities			
Bank overdrafts	21	384.1	212.4
Trade and other payables	28	70.6	76.7
Finance lease liabilities	24	3.2	4.8
Provisions	27	3.8	0.9
		461.7	294.8
Non-current liabilities			
Trade and other payables	28	548.3	527.0
Finance lease liabilities	24	1.5	4.7
Retirement benefit obligations	25	83.3	23.5
Provisions	27	5.1	-
		638.2	555.2
Total liabilities		1,099.9	850.0
Equity			
Share capital	22	88.0	88.0
Revaluation reserve		23.0	163.6
Retained earnings		(48.5)	(84.7)
Total equity		62.5	166.9
Total equity and liabilities		1,162.4	1,016.9

The financial statements on pages 25 to 102 were approved by the Board of Directors on 20 December 2017 and were signed on its behalf by:

....

B E J Dew

Director

The notes on pages 29 to 102 form an integral part of these financial statements.

Kier Limited

Consolidated Statement of Changes in Equity for the Year Ended 30 June 2017

	Share capital £ m	Revaluation reserve £ m	Cash flow hedge reserve £ m	Translation reserve £ m	Retained earnings £ m	Equity attributable to owners of the company £ m	Non-controlling interests £ m	Total equity £ m
At 1 July 2016	88.0	2.1	(0.6)	5.7	(115.2)	(20.0)	2.1	(17.9)
(Loss)/profit for the year	-	-	-	-	(45.7)	(45.7)	1.1	(44.6)
Other comprehensive expense	-	-	(1.8)	(0.9)	(27.2)	(29.9)	-	(29.9)
Total comprehensive (expense)/income	-	-	(1.8)	(0.9)	(72.9)	(75.6)	1.1	(74.5)
Dividends	-	-	-	-	-	-	(0.2)	(0.2)
Share based payment transactions	-	-	-	-	2.5	2.5	-	2.5
At 30 June 2017	88.0	2.1	(2.4)	4.8	(185.6)	(93.1)	3.0	(90.1)

	Share capital £ m	Revaluation reserve £ m	Cash flow hedge reserve £ m	Translation reserve £ m	Retained earnings £ m	Equity attributable to owners of the company £ m	Non-controlling interests £ m	Total equity £ m
At 1 July 2015	88.0	2.1	(0.5)	(2.9)	(97.6)	(10.9)	1.8	(9.1)
(Loss)/profit for the year	-	-	-	-	(61.3)	(61.3)	0.8	(60.5)
Other comprehensive (expense)/income	-	-	(0.1)	8.6	38.5	47.0	-	47.0
Total comprehensive (expense)/income	-	-	(0.1)	8.6	(22.8)	(14.3)	0.8	(13.5)
Dividends	-	-	-	-	-	-	(0.5)	(0.5)
Share based payment transactions	-	-	-	-	5.2	5.2	-	5.2
At 30 June 2016	88.0	2.1	(0.6)	5.7	(115.2)	(20.0)	2.1	(17.9)

The notes on pages 29 to 102 form an integral part of these financial statements.

Kier Limited

Company Statement of Changes in Equity for the Year Ended 30 June 2017

	Share capital £ m	Revaluation reserve £ m	Retained earnings £ m	Total equity £ m
At 1 July 2016	88.0	163.6	(84.7)	166.9
Loss for the year	-	-	(79.0)	(79.0)
Other comprehensive expense	-	-	(26.1)	(26.1)
Total comprehensive expense	-	-	(105.1)	(105.1)
Capital reduction	-	(140.6)	140.6	-
Share based payment transactions	-	-	0.7	0.7
At 30 June 2017	88.0	23.0	(48.5)	62.5

	Share capital £ m	Revaluation reserve £ m	Retained earnings £ m	Total equity £ m
At 1 July 2015	88.0	163.6	(73.0)	178.6
Loss for the year	-	-	(49.1)	(49.1)
Other comprehensive income	-	-	32.2	32.2
Total comprehensive expense	-	-	(16.9)	(16.9)
Share based payment transactions	-	-	5.2	5.2
At 30 June 2016	88.0	163.6	(84.7)	166.9

For further details on the capital reduction made during the current year, please see note 22 to the financial statements.

Kier Limited

Consolidated Statement of Cash Flows for the Year Ended 30 June 2017

	Note	2017 £ m	2016 £ m
Cash flows from operating activities			
Loss before tax - continuing operations		(32.2)	(88.8)
(Loss)/profit before tax - discontinued operations		(1.8)	8.5
Non-underlying items		72.9	126.5
Net finance cost	9	40.5	45.1
Share of post-tax trading results of joint ventures		(19.5)	(14.2)
Pension charge in excess of normal contributions to pension fund		2.7	1.2
Equity settled share-based payments charge		2.5	5.2
Amortisation and impairment of intangible assets	7	30.1	27.8
Other non-cash items		(4.7)	3.2
Depreciation charges		19.6	16.7
Profit on disposal of joint ventures and subsidiaries		(5.4)	(2.6)
(Profit)/loss on disposal of property, plant and equipment		(1.1)	3.5
Operating cash inflows before movements in working capital		103.6	132.1
Working capital adjustments			
Special contributions to pension fund	25	(31.3)	(25.1)
Decrease in inventories	19	1.1	60.0
(Increase)/decrease in receivables		(127.5)	13.4
Increase in payables	28	98.5	16.0
Decrease in provisions	27	(23.4)	(4.7)
Cash inflow from operating activities before non-underlying items		21.0	191.7
Cash inflow/(outflow) from non-underlying items		2.6	(83.0)
Cash inflow from operating activities		23.6	108.7
Dividends received from joint ventures		23.2	2.8
Interest received		2.4	-
Income taxes received		14.6	2.2
Net cash inflow from operating activities		63.8	113.7
Cash flows from investing activities			
Proceeds from sale of property plant and equipment		1.4	10.6
Proceeds from sale of joint venture		26.0	20.4
Purchases of property, plant and equipment		(15.4)	(13.4)
Purchase of intangible assets	15	(44.4)	(38.1)
Acquisition of subsidiaries		-	5.4
Net investment in joint ventures	16	(39.9)	(60.8)
Divestment in assets held for resale		-	29.8
Net cash used in investing activities		(72.3)	(46.1)
Cash flows from financing activities			
Interest paid	9	(38.3)	(45.1)
Inflow from finance leases on property, plant and equipment		1.7	3.1
Increase in borrowings		0.4	1.6
Finance lease repayments		(13.7)	(17.4)
Dividends paid to minority interests		(0.2)	(0.5)
Net cash used in financing activities		(50.1)	(58.3)
Net (decrease)/increase in cash and cash equivalents		(58.6)	9.3
Cash and cash equivalents at 1 July		7.2	(9.7)
Effect of change in foreign exchange rates		(0.9)	7.6
(Net borrowings)/cash and cash equivalents at 30 June		(52.3)	7.2

The notes on pages 29 to 102 form an integral part of these financial statements.

1 General information

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

The address of its registered office is:
Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

2 Accounting policies

Statement of compliance
The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and therefore comply with those parts of the Companies Act 2006 that are applicable to companies reporting under IFRS. The Group has applied all accounting standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee as adopted by the European Union and effective for accounting periods beginning on 1 July 2016.

The financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006. As permitted by Section 408 of the Companies Act 2006, the income statement and statement of comprehensive income of the Company are not presented as part of these financial statements. The Company has produced its own income statement and statement of comprehensive income for approval by its Board. The Company receives dividends from subsidiaries and charges subsidiaries for the provision of Group-related services. The loss after income tax of the Company for the year was £79.0m (2016: £49.1m loss).

Summary of disclosure exemptions
The Company has taken the following disclosure exemptions in preparing its stand alone financial statements, as permitted by FRS 101:
IAS 7: Complete exemption from preparing a cash flow statement and related notes.
IFRS 2: Exemption from certain of the disclosures in respect of share based payments.
IAS 8: The listing of new or revised standards that have not been adopted (and information about their likely impact) has been omitted.
IAS 36: Exemption from disclosures for each cash generating unit which contains goodwill, in particular in relation to assumptions and sensitivities.
IFRS 7: Complete exemption from all of the disclosure requirements of IFRS 7, Financial Instruments, other than for those instruments where these disclosures are still required to comply with the law.
IFRS 13: Complete exemption from all of the disclosure requirements of IFRS 13, Fair Value Measurement.
IAS 24: Exemption for related party transactions entered into between two or more members of a group, provided that any subsidiary party to the transaction is wholly owned by such a member.
IAS 24: Exemption from disclosure of compensation for key management personnel and amounts incurred by an entity for the provision of key management personnel services that are provided by a separate management entity.
IAS 1: Exemption from comparatives for movements on property, plant & equipment, intangible assets and share capital.

2 Accounting policies (continued)

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

Basis of preparation
The financial statements have been prepared in accordance with adopted IFRSs and under historical cost accounting rules.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies.

The Company has elected to prepare its parent company financial statements in accordance with the FRS101 'Reduced Disclosure Framework.'

Going concern
The Group has considerable financial resources, long-term contracts and a diverse range of customers and suppliers across its business activities.

The profitability of the Group has been impacted by a significant level of non-underlying items. This has resulted in the Group being in a net current liabilities position at 30 June 2017. The level of non-underlying items is not expected to continue and therefore the Group expects to return to a net current assets position.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

New standards, interpretations and amendments effective
The following amendments to standards are effective for the financial year ended 30 June 2017 onwards:

- Amendments to IFRS 11, Joint Arrangements
- Amendments to IFRS 12, Disclosure of Interests in Other Entities
- Amendments to IAS 1, Presentation of Financial Instruments
- Amendments to IAS 16, Property, Plant and Equipment
- Amendments to IAS 38, Intangible Assets
- Annual improvements to IFRSs 2014

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

2 Accounting policies (continued)

New standards, interpretations and amendments not yet effective
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:

- Amendments to IFRS 2, Share Based Payments
- Amendments to IFRS 4, Insurance Contracts
- IFRS 9, Financial Instruments
- IFRS 15, Revenue from Contracts with Customers
- IFRS 16, Leases
- IFRS 17, Insurance Contracts
- Amendments to IAS 7, Statement of Cash Flows
- Amendments to IAS 12, Income Taxes
- IFRIC 22, Foreign Currency Transaction and Advanced Consideration
- IFRIC 23, Uncertainty Over Income Tax Treatments
- Annual improvements 2014-2016 cycle

The directors are considering the impact of these new standards and interpretations in future periods.

IFRS 15 will replace IAS 18 'Revenue' and IAS 11 'Construction Contracts'. It will become effective for accounting periods beginning on or after 1 January 2018. The Group is not currently contemplating early adoption and therefore IFRS 15 will be applied for the first time to the Group accounts for the year ended 30 June 2019. The Group is working closely with its advisors to assess the potential impacts of IFRS 15 'Revenue from Contracts with Customers', including consideration of transition method.

The main impact of IFRS 16 will be to move the Group's larger, longer term operating leases, primarily on property, onto the balance sheet with a consequential increase in non-current assets and finance lease obligations. Operating lease charges included in administrative expenses will be replaced by depreciation and interest costs. No decision has yet been made on the transition method or the timing of adoption of IFRS 16.

IFRS 9 will become effective for accounting periods beginning on or after 1 January 2018. The Group is not currently contemplating early adoption and therefore IFRS 9 will be applied for the first time to the Group accounts for the year ended 30 June 2019. The Group is assessing the impact of IFRS 9 on its financial statements.

Other than the impact of IFRS 15 and IFRS 16 as noted above, no significant net impact from the adoption of these new standards is expected. The Group has chosen not to adopt any of the above standards and interpretations earlier than required.

Basis of consolidation
The group financial statements consolidate the financial statements of the company and its subsidiary undertakings drawn up to 30 June 2017.

(a) Subsidiaries
The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2017. 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.

2 Accounting policies (continued)

Basis of consolidation (continued)
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 re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurements are recognised in profit or loss.

For acquisitions, 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 IFRS11. In accordance with IFRS11, the Group accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements.

2 Accounting policies (continued)

Revenue 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.

Revenue and profit are recognised as follows:

(a) Construction contracts
Revenue arises from increases in valuations on contracts and is normally determined by external valuations. It is the gross value of work carried out for the period to the balance sheet date (including retentions) but excludes claims until they are actually certified.

Profit on contracts is calculated in accordance with accounting standards and industry practice. Industry practice is to assess the estimated final outcome of each contract and recognise the profit based upon the percentage of completion of the contract at the relevant 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.

The general principles for profit recognition are as follows:
• Profits on short duration contracts are taken when the contract is complete;
• Profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably;
• Provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent;
• Claims receivable are recognised as income when received or certified for payment, except that in preparing contract forecasts to completion, a prudent and reasonable evaluation of claims receivable may be included to mitigate foreseeable losses and only to the extent that there is reasonable certainty of recovery; and
• Variations and compensation events are included in forecasts to completion when it is considered highly probable that they will be recovered.

Percentage completion is normally calculated by taking certified value to date as a percentage of estimated final value, unless the internal value is materially different to the certified value, in which case the internal value is used.

(b) Services
Revenue and profit from services rendered, which include facilities management, highways maintenance, street cleaning and recycling, is recognised as and when the service is provided.

Where revenue that has been recognised is subsequently determined not to be recoverable due to a dispute with the client, these amounts are charged against the revenue recognised. Where non-recovery is as a result of inability of a client to meet its obligations, these amounts are charged to administrative expenses.

Where revenue that has been recognised is subsequently determined not to be recoverable due to a dispute with the client, these amounts are charged against the revenue recognised. Where non-recovery is as a result of inability of a client to meet its obligations, these amounts are charged to administrative expenses.

Unbilled revenue is the difference between the revenue recognised and the amounts actually invoiced to customers. Where invoicing exceeds the amount of revenue recognised these amounts are included in deferred income.

2 Accounting policies (continued)

Revenue recognition (continued)
(c) Private housing and land sales
Revenue from housing sales is recognised at the fair value of the consideration received or receivable on legal completion, net of incentives. Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts. Profit is recognised on a site-by-site basis by reference to the expected out-turn result from each site. The principal estimation technique used by the Group in attributing profit on sites to a particular period is the preparation of forecasts on a site-by-site basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn on each site. Consistent review procedures are in place in respect of site forecasting. Provision is made for any losses foreseen in completing a site as soon as they become apparent.

(d) Property development
Revenue in respect of property developments is taken 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. Provision is made for any losses foreseen in completing a development as soon as they become apparent. Where developments are sold in advance of construction being completed, revenue and profit are recognised from the point of sale and as the significant outstanding acts of construction and development are completed. If a development is sold in advance of the commencement of construction, no revenue or profit is recognised at the point of sale. Revenue and profit are recognised in line with the progress on construction, based on the percentage completion of the construction and development work. If a development is sold during construction but prior to completion, revenue and profit are recognised at the time of sale in line with the percentage completion of the construction and development works at the time of sale and thereafter in line with the percentage of completion of the construction and development works.

(e) 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 fair values of the services delivered.

Government grants
Government grant income is recognised at the point that there is reasonable assurance that the Group will comply with them conditions attached to it, and that the grant will be received.

Pre-contract costs
Costs associated with bidding for contracts are written off as incurred (pre-contract costs). When it is probable that a contract will be awarded, usually when the Group has secured preferred bidder status, costs incurred from that date to the date of financial close are carried forward in the balance sheet as other receivables.

When financial close is achieved on PFI or Public Private Partnership (PPP) contracts, costs are recovered from the special purpose vehicle and pre-contract costs within this recovery that were not previously capitalised are credited to the income statement, except to the extent that the Group retains a share in the special purpose vehicle. The amount not credited is deferred and recognised over the life of the construction contract to which the costs relate.

2 Accounting policies (continued)

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

Examples of material items which may give rise to disclosure as non-underlying items include gains or losses on the disposal of businesses, costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses, asset impairments and acquisition transaction costs and unwind of discounts. They also include reclassification of provisions in respect of such items.

Amortisation of acquired intangible assets is also treated as a non-underlying item so that the underlying profit of the Group can be measured on a comparable basis from period to period.

These are examples, and from time to time it may be appropriate to disclose further items as non-underlying in order to highlight the underlying performance of the Group.

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

Finance income and costs policy
Interest receivable and payable on bank balances is credited or charged to the income statement as incurred using the effective interest rate method. 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.

Foreign currency transactions and balances
Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from foreign currency transactions are reflected in the income statement.

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which each entity operates ('the functional currency'). The consolidated financial statements are presented in GBP, which is the Group's presentation currency.

The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Trading profits or losses are translated at average rates prevailing during the accounting period. Differences on exchange arising from the retranslation of net investments in overseas subsidiary undertakings at the year-end rates are recognised in other comprehensive income. All other translation differences are reflected in the income statement.

2 Accounting policies (continued)

Tax

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.

Property, plant and equipment

Property, plant and equipment is stated in the statement of financial position at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Depreciation is 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. Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the asset.

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:

Asset class	**Depreciation method and rate**
Freehold buildings	25-50 years
Leasehold buildings and improvements	over the period of the lease
Plant, vehicles and fixtures	3-12 years
Assets held under finance leases	over the period of the lease

2 Accounting policies (continued)

Mining assets
Opencast expenditure incurred prior to the commencement of operating an opencast site is capitalised and the cost less the residual value is depreciated over the 'coaling life' of the site on a coal extraction basis.

The cost of restoration is recognised as a provision as soon as the restoration liability arises. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within finance costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset. Where there is a subsequent change to the estimated restoration costs or discount rate, the present value of the change is recognised as a change in the restoration provision with a corresponding change in the cost of the tangible asset until the asset is fully depreciated when the remaining adjustment is taken to the income statement.

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.

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.

Amortisation
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:

Asset class	**Amortisation method and rate**
Contract rights	Over the remaining contract life
Computer software	3-7 years

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

2 Accounting policies (continued)

Trade receivables

Given the varied activities of the Group it is not practicable to identify a common operating cycle. The Group has therefore allocated receivables due within 12 months of the balance sheet date to current with the remainder included in non-current.

Trade receivables do not carry interest and are stated at their initial cost reduced by appropriate allowances for estimated irrecoverable amounts.

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.

Construction work in progress is included within inventories in the balance sheet. It is measured at cost plus profit less losses recognised to date less progress billings. If payments received from customers exceed the income recognised, the difference is included within trade and other payables in the balance sheet.

Land inventory is recognised at the time a liability is recognised; generally after exchange of unconditional contracts.

Property inventory, which represents all development land and work in progress, is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the income statement.

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.

Trade payables

Given the varied activities of the Group it is not practicable to identify a common operating cycle. The Group has therefore allocated payables due within 12 months of the balance sheet date to current with the remainder included in non-current.

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.

2 Accounting policies (continued)

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.

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.

Leases
Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Other leases are operating leases and the rental charges are charged to the income statement on a straight-line basis over the life of each lease.

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

Dividends
Dividend distribution to the company's shareholders is recognised as a liability in the company's financial statements in the period in which the dividends are approved by the company's shareholders.

Defined contribution pension obligation
For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

Defined benefit pension obligation
The Group accounts for defined benefit obligations in accordance with IAS19. 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.

2 Accounting policies (continued)

Share based payments
Employees of the group are granted certain rights in respect of shares of Kier Group plc which are treated as 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 is relevant for the Sharesave 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.

The cost 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.

The costs relating to the employees of the group are expensed to the Income Statement, but the cost is funded by means of a capital contribution from Kier Group plc.

Financial assets and liabilities
Classification
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.

Recognition and measurement
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.

Derivatives and hedging
Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. The method of recognising the resulting change in fair value depends on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in other comprehensive income. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on observable market prices at the balance sheet date.

Current versus non-current classification
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.

3 Critical accounting judgements and key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Revenue and profit recognition
The estimation techniques used for revenue and profit recognition in respect of property development, private housing sales, 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.

Valuation of land and work in progress
The key judgements and estimates in determining the net realisable value of land and work in progress are:
- An estimation of costs to complete;
- An estimation of the remaining revenues; and
- An estimation of selling costs.

These assessments include a degree of uncertainty and therefore if the key judgements and estimates change unfavourably, write downs of land and work in progress may be necessary.

Determination of fair values of identifiable net assets
On the acquisition of a business, fair values are attributed to the identifiable assets and liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is subsumed into goodwill.

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 are included in note 25.

Provisions
Provisions are liabilities of uncertain timing or amount and therefore in making a reliable estimate of the amount and timing of liabilities judgement is applied and re-evaluated at each reporting date.

Recoverable value of recognised receivables
The recoverability of trade and other receivables is regularly reviewed in the light of available economic information specific to each receivable and provisions are recognised for balances considered to be irrecoverable.

3 Critical accounting judgements and key sources of estimation uncertainty (continued)

Goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of 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 and discount rate. The assumptions are set out in note 15 together with an assessment of the impact of reasonably possible sensitivities.

Non-underlying items
Non-underlying items are items of financial performance which the Group believes should be separately identified on the face of the income statement to assist in understanding the underlying financial performance achieved by the Group. Determining whether an item is part of underlying or non-underlying items requires judgement.

Held for sale and discontinued operations
When it is probable that businesses will be sold within one year and they are being actively marketed they meet the criteria to be classified as held for sale. Discontinued operations are businesses or a group of businesses which meet the criteria to be held for sale, have been sold or abandoned, and form a separate major line of business of the Group. Management judgement is applied in assessing the timing of sale to meet the classification criteria.

Details of discontinued operations and assets held for sale are set out in notes 4 and 5.

Taxation
The Group is subject to tax in a number of jurisdictions and judgement is required in determining the overall provision for income taxes. 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 exposures.

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.

4 Discontinued operations

During the year ended 30 June 2017, following their sale, the results of the Mouchel Consulting business and Biogen Holdings Limited have been classified as discontinued. Comparative information has been restated accordingly.

Mouchel Consulting (subsidiary)
On 12 October 2016, the Group disposed of its investment in Mouchel Limited which, together with its subsidiaries, comprised the Mouchel Consulting business.

The results are as follows:

	2017 £ m	2016 £ m
Revenue	29.7	124.4
Operating costs	(30.0)	(115.9)
(Loss)/profit before tax	(0.3)	8.5
Tax expense relating to profit before tax of discontinued operations	(2.3)	(1.6)
Net (loss)/gain attributable to discontinued operations	(2.6)	6.9

The discontinued operations results contributed the following to the group cash flow:

	2017 £ m	2016 £ m
Net cash (outflows)/inflows from operating activities	(2.6)	6.9

Biogen Holdings Limited (joint venture)
On 1 April 2017 the Group disposed of its investment in Biogen Holdings Limited.

The results are as follows:

	2017 £ m	2016 £ m
Operating costs	(1.5)	-

The discontinued operations results contributed the following to the group cash flow:

	2017 £ m	2016 £ m
Net cash outflows from operating activities	(1.5)	-

5 Assets held for sale as part of a disposal group

As at 30 June 2016, Kier Minerals Limited (KML) was expected to be sold during the year ended 30 June 2017 and consequently its results were classified as discontinued operations and the assets and liabilities were classified as held for sale. As a sale on acceptable terms could not be agreed, the results of KML have been reclassified as continuing in the current and prior periods and its assets and liabilities have been transferred out of assets held for sale.

The major classes of assets and liabilities of Kier Minerals Limited (KML) are as follows:

	2017 £ m	2016 £ m
Property, plant and equipment	-	5.0
Inventories	-	3.6
Other current assets	-	9.6
Total assets classified as held for sale	-	18.2
Trade and other payables	-	(5.0)
Provisions	-	(8.7)
Total liabilities associated with assets classified as held for sale	-	(13.7)
Net assets held for sale	-	4.5

6 Revenue

The analysis of revenue by geographical split is as follows:

Geographical split of revenue	2017 £ m	2016 £ m
United Kingdom	3,692.9	3,474.4
Americas	8.7	21.0
Middle East	131.0	168.2
Far East & Australia	146.8	170.1
Total (continuing operations)	3,979.4	3,833.7

7 Operating profit

Arrived at after charging/(crediting)

	2017 £ m	2016 £ m
Depreciation expense	19.6	21.7
Amortisation expense	30.1	27.9
Impairment loss	-	1.8
Research and Development Expenditure Credit receivable	(4.0)	(4.2)
Operating lease expense - property	11.3	10.9
Operating lease expense - plant and machinery	35.2	28.5
Loss on disposal of property, plant and equipment	1.1	3.6

8 Non-underlying items

Continuing operations	2017 £ m	2016 £ m
Portfolio simplification - closure of business		
Closure of Hong Kong operations and related contracts	(26.3)	-
Closure of Caribbean operations and related contracts	(60.4)	(23.1)
Impairment of UK Mining business	-	(10.5)
Portfolio simplification - sale of assets and other M&A activity		
Gain relating to the disposal of Mouchel Consulting	40.0	-
Loss on disposal of Biogen (2016: impairment of investment)	(7.6)	(5.0)
Transaction and integration costs following the acquisition of the Mouchel Group	-	(49.5)
Other M&A gains, losses and costs (2016: gain on disposal)	(5.5)	1.7
Other non-underlying costs		
Provision relating to Environmental Services contracts, recyclate costs, and curtailment of contracts	(11.1)	(35.6)
Increased fine for HSE incident arising from revised sentencing guidelines	(8.0)	-
Construction Workers Compensation Scheme and related costs	-	(4.5)
Pension curtailment gain	6.0	-
Total other non-underlying items	(72.9)	(126.5)
Amortisation of intangible contract rights	(22.3)	(21.6)
Acquisition discount unwind	(2.4)	(2.6)
Mining interest payable on borrowings	(0.5)	(0.2)
Total non-underlying items	(98.1)	(150.9)
Associated tax credit	11.9	28.8
Charged against profit for the year from continuing operations	(86.2)	(122.1)

8 Non-underlying items (continued)

Portfolio simplification - closure of businesses
The ongoing programme of portfolio simplification, including the wind down and closure of the Hong Kong and Caribbean businesses and related final accounts contract settlements, resulted in costs of £86.7m. The final contract in Hong Kong is complete with the final account in the final stages of negotiation. The prior year's charge included a £10.6m impairment of the UK Mining business which the Group is in the process of winding down and, consequently, the results are presented as continuing but non-underlying. As a result of the charge in the prior year, the result of the mining operations in 2017 was nil.

Portfolio simplification - sale of assets and other M&A activity
The disposal of Mouchel Consulting in October 2016 generated a profit on sale of £40.0m and net cash proceeds of £58.9m. Biogen Holdings Limited was sold in April 2017 generating a loss of £7.6m and net cash proceeds of £9.7m, following an impairment charge of £5.0m in the prior year. The integration of Mouchel is complete and consequently there are no further costs of acquisition or integration in the current year (2016: £49.9m). Other minor M&A activity took place during the year, including the sale of mining operations in Saudi Arabia, resulting in a total charge of £3.8m and £1.6m of transaction costs relating to the McNicholas acquisition, which took place post year end (2016: gain on sale of Kier FPS Limited: £1.7m).

Other non-underlying costs
The Group continues to work through the legacy contract issues in the Environmental Services business against a backdrop of recyclate pricing pressure. As a result of exiting one contract four years early and the current year impact of reduced recyclate income, a further charge of £11.1m has been taken. The prior year charge of £35.6m similarly comprised of both contract costs and recyclate price impact.

A provision of £8.0m has been made for a potential increase in Health & Safety Executive fines arising from revised sentencing guidelines. Closure of acquired Mouchel Pension schemes to future accrual has resulted in a one-off pension curtailment gain of £6.0m.

9 Finance income and costs

	Underlying 2017 £ m	Non-underlying[1] 2017 £ m	Total 2017 £ m	Underlying 2016 £ m	Non-underlying[1,2] 2016 £ m	Total 2016 £ m
Finance income						
Interest income on bank deposits	0.3	-	0.3	0.2	-	0.2
Interest receivable on loans to joint ventures	0.8	-	0.8	0.3	-	0.3
Other finance income	1.3	-	1.3	1.5	-	1.5
Total finance income	2.4	-	2.4	2.0	-	2.0

9 Finance income and costs (continued)

	2017 Underlying £ m	2017 Non-underlying[1] £ m	2017 Total £ m	2016 Underlying £ m	2016 Non-underlying[1,2] £ m	2016 Total £ m
Finance costs						
Interest on bank overdrafts and borrowings	(1.4)	-	(1.4)	(1.0)	(0.2)	(1.2)
Interest payable on joint ventures	-	-	-	(0.1)	-	(0.1)
Interest on obligations under finance leases and hire purchase contracts	(0.6)	-	(0.6)	(1.4)	-	(1.4)
Interest expense on other financing liabilities	-	(2.4)	(2.4)	-	(2.6)	(2.6)
Other finance costs	(2.0)	-	(2.0)	(5.6)	-	(5.6)
Interest paid to group undertakings	(36.0)	(0.5)	(36.5)	(36.6)	-	(36.6)
Total finance costs	(40.0)	(2.9)	(42.9)	(44.7)	(2.8)	(47.5)
Net finance costs	(37.6)	(2.9)	(40.5)	(42.7)	(2.8)	(45.5)

[1] Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition and interest on UK Mining loan.
[2] Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

10 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2017 £ m	2016[1] £ m
Wages and salaries	712.4	692.4
Social security costs	73.9	75.2
Pension costs, defined contribution scheme	40.9	42.2
Pension costs, defined benefit scheme	(1.2)	8.9
Share-based payment expenses	2.5	5.2
	828.5	823.9

The monthly average number of persons employed by the group (including directors) during the year, analysed by category was as follows:

	2017 No.	2016[1] No.
United Kingdom	15,040	15,966
Rest of World	2,267	2,040
	17,307	18,006

10 Staff costs (continued)

The Company participates on behalf of senior employees in the Kier Group 1999 Long Term Incentive Plan (LTIP), which is dependent upon the performance of Kier Group plc over a three year period. Full details of the plan are disclosed in the Report and Accounts of Kier Group plc.

[1]The prior year figures have been restated to reflect the reclassification of Mouchel Consulting operations as discontinued for comparability purposes.

11 Directors' remuneration

The directors' remuneration for the year was as follows:

	2017 £ m	2016 £ m
Remuneration	3.6	4.1
Contributions paid to money purchase pension schemes	0.4	0.4
	4.0	4.5

In respect of the highest paid director:

	2017 £ m	2016 £ m
Remuneration	1.1	1.3
Company contributions to money purchase pension schemes	0.1	0.1
	1.2	1.4

The remuneration of the highest paid director includes £0.2m of vesting share awards under the LTIP scheme (2016: £0.2m).

All of the directors who served during the year are also directors of the ultimate parent company. Their remuneration for services as directors to the Group is wholly borne by and disclosed in the financial statements of that company in the current and prior year.

12 Auditors' remuneration

	2017 £ m	2016 £ m
Audit of these financial statements	0.2	0.1
Audit of the financial statements of subsidiaries of the company pursuant to legislation	1.0	0.9
	1.2	1.0

Other fees to auditors

	2017 £ m	2016 £ m
Taxation compliance services	-	0.1
All other assurance services	0.1	0.1
	0.1	0.2

13 Income tax

Tax charged/(credited) in the income statement

	Underlying items[1] £ m	Non-underlying items (note 8) £ m	2017 Total £ m	Underlying items[1] £ m	Non-underlying items (note 8) £ m	2016[2] Total £ m
Current taxation						
UK corporation tax	11.6	(11.9)	(0.3)	16.7	(28.8)	(12.1)
UK corporation tax adjustment to prior periods	2.2	-	2.2	3.2	-	3.2
	13.8	(11.9)	1.9	19.9	(28.8)	(8.9)
Deferred taxation						
Arising from origination and reversal of temporary differences	8.6	(0.7)	7.9	(4.7)	-	(4.7)
Arising from changes in tax rates and laws	(2.9)	-	(2.9)	-	-	-
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1.4	-	1.4	(4.6)	(3.2)	(7.8)
Total deferred taxation	7.1	(0.7)	6.4	(9.3)	(3.2)	(12.5)
Tax expense/(receipt) in the income statement	20.9	(12.6)	8.3	10.6	(32.0)	(21.4)

[1] Stated before non-underlying items (see note 8).

[2] Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

13 Income tax (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2016 - higher than the standard rate of corporation tax in the UK) of 19.75% (2016 - 20%).

The differences are reconciled below:

			2017			**2016[2]**
	Underlying items[1] £ m	**Non-underlying items (note 8) £ m**	**Total £ m**	**Underlying items[1] £ m**	**Non-underlying items (note 8) £ m**	**Total £ m**
Profit/loss before tax	65.9	(98.1)	(32.2)	62.1	(150.9)	(88.8)
Add: tax on joint ventures	0.9	-	0.9	0.4	-	0.4
Adjusted profit/(loss) before tax	66.8	(98.1)	(31.3)	62.5	(150.9)	(88.4)
Corporation tax at standard rate	13.2	(19.4)	(6.2)	12.5	(30.2)	(17.7)
Increase in current tax from adjustment for prior periods	2.2	-	2.2	3.2	-	3.2
(Decrease)/increase from effect of different UK tax rates on some earnings	(2.9)	-	(2.9)	0.2	-	0.2
Decrease from effect of revenues exempt from taxation	(0.4)	(11.2)	(11.6)	(0.5)	-	(0.5)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	2.3	19.8	22.1	1.0	1.4	2.4
Tax increase/(decrease) from utilisation of tax losses	6.0	(1.8)	4.2	(1.0)	-	(1.0)
Increase from effect of foreign tax rates	-	-	-	0.2	-	0.2
Deferred tax expense/(credit) from unrecognised temporary difference from a prior period	1.4	-	1.4	(4.6)	(3.2)	(7.8)
Total tax charge/(credit) including joint ventures	21.8	(12.6)	9.2	11.0	(32.0)	(21.0)
Tax on joint ventures	(0.9)	-	(0.9)	(0.4)	-	(0.4)
Group tax charge/(credit)	20.9	(12.6)	8.3	10.6	(32.0)	(21.4)

[1] Restated to reclassify the UK Mining operations as continuing and Mouchel Consulting and Biogen as discontinued.

The deferred tax balance as at the year end has been recognised at 17%, which is the enacted corporation tax rate that will be effective from 1 April 2020.

13 Income tax (continued)

At the balance sheet date the Group has unused tax losses of £180.3m (2016 - £172.5m) available for offset against future profits.

A deferred tax asset has been recognised in respect of £10.5m (2016 - £23.3m) of income tax 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.

Amounts recognised in other comprehensive income

	2017		
	Before tax £ m	**Tax benefit £ m**	**Net of tax £ m**
(Loss)/gain on cash flow hedges (net)	(2.2)	0.4	(1.8)
Foreign currency translation (losses)	(0.9)	-	(0.9)
Remeasurements of post employment benefit obligations	(29.3)	2.1	(27.2)
	(32.4)	2.5	(29.9)

Amounts recognised in other comprehensive income

	2016		
	Before tax £ m	**Tax expense £ m**	**Net of tax £ m**
(Loss) on cash flow hedges (net)	(0.1)	-	(0.1)
Foreign currency translation gains	8.6	-	8.6
Remeasurements of post employment benefit obligations	47.6	(9.1)	38.5
	56.1	(9.1)	47.0

13 Income tax (continued)

Deferred tax

Group

Deferred tax assets and liabilities

2017	Asset £ m	Liability £ m	Net deferred tax £ m
Intangible assets	-	(32.5)	(32.5)
Property, plant and equipment	25.5	-	25.5
Other items	-	-	-
Pension benefit obligations	14.4	-	14.4
Tax losses carry-forwards	1.8	-	1.8
	41.7	(32.5)	9.2

2016	Asset £ m	Liability £ m	Net deferred tax £ m
Intangible assets	-	(38.7)	(38.7)
Property, plant and equipment	25.7	(0.3)	25.4
Other items	5.0	(4.6)	0.4
Pension benefit obligations	15.8	-	15.8
Tax losses carry-forwards	4.2	-	4.2
	50.7	(43.6)	7.1

13 Income tax (continued)

Deferred tax movement during the year:

	At 1 July 2016 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Transfers £ m	At 30 June 2017 £ m
Intangible assets	(38.7)	6.2	-	-	(32.5)
Property, plant and equipment	25.4	(1.4)	-	1.5	25.5
Other items	0.4	(5.3)	0.4	4.5	-
Pension benefit obligations	15.8	(3.5)	2.1	-	14.4
Tax losses carry-forwards	4.2	(2.4)	-	-	1.8
Net tax assets/(liabilities)	7.1	(6.4)	2.5	6.0	9.2

Deferred tax movement during the prior year:

	At 1 July 2015 £ m	Recognised in income £ m	Recognised in other comprehensive income £ m	Transfers £ m	At 30 June 2016 £ m
Intangible assets	(46.7)	8.0	-	-	(38.7)
Property, plant and equipment	17.1	8.3	-	-	25.4
Other items	3.3	2.9	-	(5.8)	0.4
Pension benefit obligations	30.7	(5.8)	(9.1)	-	15.8
Tax losses carry-forwards	5.1	(0.9)	-	-	4.2
Net tax assets/(liabilities)	9.5	12.5	(9.1)	(5.8)	7.1

Company

A deferred tax asset of £21.5m (2016: £9.1m) has been recognised in Kier Limited. This deferred tax asset comprises of the following:

	2017 £ m	2016 £ m
Fixed asset timing differences	7.6	4.8
Retirement benefit obligations	14.1	4.3
Other timing differences	(0.2)	-
	21.5	9.1

14 Property, plant and equipment

Group

	Land and buildings £ m	Plant, vehicles and fixtures £ m	Mining £ m	Total £ m
Cost or valuation				
At 1 July 2015	67.7	122.2	-	189.9
Additions	7.1	7.0	-	14.1
Disposals	(11.0)	(21.0)	-	(32.0)
Currency realignment	(0.2)	1.3	-	1.1
At 30 June 2016	63.6	109.5	-	173.1
Additions	0.4	10.2	4.8	15.4
Disposals	(6.4)	(27.9)	-	(34.3)
Currency realignment	-	0.1	-	0.1
Transfer to intangible fixed assets	-	(15.1)	-	(15.1)
Transfer from assets held for sale	5.0	-	-	5.0
At 30 June 2017	62.6	76.8	4.8	144.2
Accumulated depreciation				
At 1 July 2015	10.3	59.2	-	69.5
Charge for year	1.7	20.0	-	21.7
Eliminated on disposal	(0.3)	(17.6)	-	(17.9)
Currency realignment	-	0.9	-	0.9
At 30 June 2016	11.7	62.5	-	74.2
Charge for the year	3.0	16.6	-	19.6
Eliminated on disposal	(1.3)	(25.8)	-	(27.1)
Currency realignment	-	0.1	-	0.1
Transfer to intangible fixed assets	-	(12.4)	-	(12.4)
At 30 June 2017	13.4	41.0	-	54.4
Carrying amount				
At 30 June 2017	49.2	35.8	4.8	89.8
At 30 June 2016	51.9	47.0	-	98.9

14 Property, plant and equipment (continued)

Assets held under finance leases

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

	2017 £ m	2016 £ m
Plant, vehicles and fixtures	13.5	18.6

As part of the ongoing ERP implementation, the Group and Company has conducted a detailed review of its property, plant and equipment and as a consequence has written off £13.4m of fully depreciated historic assets that are no longer in use and reclassified £15.1m of licences to intangible assets.

Company

	Land and buildings £ m	Plant, vehicles and fixtures £ m	Total £ m
Cost or valuation			
At 1 July 2015	29.2	36.1	65.3
Additions	3.0	4.8	7.8
Disposals	(3.9)	-	(3.9)
At 30 June 2016	28.3	40.9	69.2
Additions	-	5.5	5.5
Disposals	(1.3)	(7.6)	(8.9)
Transfers	-	(15.1)	(15.1)
At 30 June 2017	27.0	23.7	50.7
Accumulated depreciation			
At 1 July 2015	3.1	23.6	26.7
Charge for year	1.1	3.7	4.8
Eliminated on disposal	(0.1)	2.0	1.9
At 30 June 2016	4.1	29.3	33.4
Charge for the year	0.9	6.6	7.5
Eliminated on disposal	(1.3)	(7.8)	(9.1)
Transfers	-	(12.4)	(12.4)
At 30 June 2017	3.7	15.7	19.4
Carrying amount			
At 30 June 2017	23.3	8.0	31.3
At 30 June 2016	24.2	11.6	35.8

15 Intangible assets

Group

	Goodwill £ m	Contractual customer relationships £ m	Computer software[1] £ m	Total £ m
Cost or valuation				
At 1 July 2015	499.2	279.2	34.6	813.0
Additions	-	0.6	37.5	38.1
Disposals	-	(0.8)	(4.7)	(5.5)
At 30 June 2016	499.2	279.0	67.4	845.6
Additions	-	-	44.4	44.4
Disposals	(5.4)	(3.5)	(14.7)	(23.6)
Transfers	-	-	15.1	15.1
At 30 June 2017	493.8	275.5	112.2	881.5
Accumulated amortisation				
At 1 July 2015	1.2	40.5	7.1	48.8
Amortisation charge	-	21.6	6.3	27.9
Amortisation eliminated on disposals	-	-	(1.6)	(1.6)
Impairment	-	1.8	-	1.8
At 30 June 2016	1.2	63.9	11.8	76.9
Amortisation charge	-	22.3	7.8	30.1
Amortisation eliminated on disposals	-	(0.3)	(14.5)	(14.8)
Transfers	-	-	12.4	12.4
At 30 June 2017	1.2	85.9	17.5	104.6
Carrying amount				
At 30 June 2017	492.6	189.6	94.7	776.9
At 30 June 2016	498.0	215.1	55.6	768.7

[1] £67.0m largely relating to the Group's ERP implementation is under construction and not being amortised (2016: £42.0m).

15 Intangible assets (continued)

Company

	Computer software[1] £ m	Total £ m
Cost or valuation		
At 1 July 2015	28.2	28.2
Additions	33.2	33.2
At 30 June 2016	61.4	61.4
Additions	41.3	41.3
Disposals	(14.4)	(14.4)
Transfers	15.1	15.1
At 30 June 2017	103.4	103.4
Accumulated amortisation		
At 1 July 2015	4.7	4.7
Amortisation charge	6.5	6.5
At 30 June 2016	11.2	11.2
Amortisation charge	6.7	6.7
Amortisation eliminated on disposals	(14.4)	(14.4)
Transfers	12.4	12.4
At 30 June 2017	15.9	15.9
Carrying amount		
At 30 June 2017	87.5	87.5
At 30 June 2016	50.2	50.2

15 Intangible assets (continued)

Goodwill mainly relates to the acquisition of MRBL Limited (£309.3m), May Gurney Integrated Services plc (£170.3m), Kier Partnership Homes Limited (£5.2m), Pure Recycling Limited (£4.8m), Beco Limited (£2.6m) and Southdale (£0.8m). These balances have been subject to an annual impairment review based upon the projected profits of each cash generating unit ("CGU").

The cost of contract rights primarily relates to:

• The acquisition of the businesses and assets of the construction and business services operations of Sheffield City Council (£21.3m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£7.2m). These contracts are in partnership with the respective councils that have retained a participatory ownership interest and the rights for a minority share in the profits. These profit shares are reflected in the income statement as minority interests. The amounts for the year to 30 June 2017 are: Stoke-on-Trent City Council £0.5m (2016 - £0.5m), North Tyneside Council £0.2m (2016 - £0.2m) and Unity Partnership £0.4m (2016 - £nil);
• The acquisition of Pure Recycling Limited (£2.0m) and Stewart Milne (£1.0m);
• The acquisition of a commercial refuse collections business from Wealdon District Council (£3.6m);
• The acquisition of May Gurney Integrated Services plc (£98.6m); and
• The acquisition of MRBL Limited (Mouchel Group) (£138.6m).

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.

Intangible assets are subject to an annual impairment review at the Kier Group plc level. Details of the review can be found on page 136 of the consolidated financial statements for Kier Group plc.

16 Investments

Group subsidiaries

Details of the group subsidiaries as at 30 June 2017 are as follows:

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
2020 Liverpool Limited	1		100%	Ordinary	100%
2020 Oldham Limited (dissolved)	1		100%	Ordinary	100%
2020 Sefton Limited (dissolved)	1		100%	Ordinary	100%
2020 St Helens Limited (dissolved)	1		100%	Ordinary	100%
2020 Wirral Limited (dissolved)	1		100%	Ordinary	100%
A C Chesters & Son Limited	1		100%	Ordinary	100%
Absolute Forbury Limited	1		100%	Ordinary	100%
Absolute Property Limited	1		100%	Ordinary	100%
Absolute Swindon Limited	1		100%	Ordinary	100%
AK Student Living Limited	1		100%	Ordinary A	100%
				Ordinary B	100%
Atkins Odlin Consulting Engineers Limited (dissolved)	1		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Ayton Asphalte Company Limited	1		100%	Ordinary A	100%
				Ordinary B	100%
Balaam Wood Management Company Limited	1		100%	Ordinary	100%
Brazier Construction Limited	1		100%	Ordinary	100%
Building & Construction Company Limited	1		100%	Ordinary	100%
Caribbean Construction Company Limited	4		100%	Ordinary	100%
Caxton Integrated Services Holdings Limited*	1		100%	Ordinary	100%
ClearBOX Limited*	1		75%	Ordinary	75%
Constantine Place (Longstanton) Management Company Limited	1		100%	Ordinary	100%
Coombe Project Management Limited (dissolved)	1		100%	Ordinary	100%
Dudley Coles Limited	1		100%	Ordinary	100%
ECT Engineering Limited	1		100%	Ordinary	100%
Engage Lambeth Limited	1		52%	Ordinary C	100%
Engineered Products Limited	1		100%	Ordinary	100%
FDT (Holdings) Ltd	1		100%	Ordinary	100%
FDT Associates Ltd	1		100%	Ordinary A	100%
FDT Contracts Ltd (dissolved)	1		100%	Ordinary	100%
Full Circle Educational Services Ltd (dissolved)	1		100%	Ordinary	100%
Gas 300 Limited (in liquidation)	1		100%	Ordinary	100%
Genica Limited	1		100%	Ordinary	100%
HBS Facilities Management Limited	1		100%	Ordinary	100%
Heart of Wales Property Services Limited	6		50%	Ordinary	50%
Hedra Group Limited (dissolved)	1		100%	Ordinary	100%
Hedra Scotland Limited (dissolved)	7		100%	Ordinary	100%
Henry Jones Construction Limited (in liquidation)*	1		100%	Ordinary	100%
Henry Jones Limited (in liquidation)	1		100%	Ordinary	100%
I E I Limited*	1		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Instal Consultants MP Limited (dissolved)	1		100%	Ordinary	100%
J L Kier & Company (London) Limited	1		100%	Ordinary	100%
J L Kier & Company Limited*	1		100%	Ordinary	100%
Kier (Catterick) Limited	1		100%	Ordinary A	100%
				Ordinary B	100%
Kier (Kent) PSP Limited	1		100%	Ordinary A	100%
				Ordinary B	100%
Kier (NR) Limited	1		100%	Ordinary	100%
Kier Asset Partnership Services Limited	1		100%	Ordinary	100%
Kier Benefits Limited*	1		100%	Ordinary	100%
Kier Build Limited	1		100%	Ordinary	100%
Kier Building Limited	1		100%	Ordinary	100%
Kier Business Services Limited	1		100%	Ordinary	100%
Kier Caribbean And Industrial Limited	1		100%	Ordinary	100%
Kier CB Limited*	1		100%	Ordinary	100%
Kier Commercial Investments Limited	1		100%	Ordinary	100%
Kier Commercial UKSC Limited	1		100%	Ordinary	100%
Kier Construction Limited	8		100%	Ordinary	100%
Kier Construction Limited*	1		100%	Ordinary	100%
Kier Construction LLC	9	a	49%	Ordinary	49%
Kier Construction SA	10		100%	Ordinary	100%
Kier Developments Limited	1		100%	Ordinary A	100%
				Ordinary B	100%
				Ordinary C	100%
Kier Dormant Holdings Limited	1		100%	Ordinary	100%
Kier Dubai LLC	11	a	49%	Ordinary	49%
Kier Energy Solutions Limited*	1		100%	Ordinary	100%
				A Ordinary	100%
Kier Engineering Services Limited (dissolved)	1		100%	Ordinary	100%
Kier Ewan Limited	1		100%	Ordinary	100%
Kier Facilities Services Limited	1		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Kier Finance & Treasury Holdings Limited	1		100%	Ordinary	100%
Kier Finance Limited	1		100%	Ordinary	100%
Kier Fleet Services Limited	1		100%	Ordinary	100%
Kier Gas 301 Limited (in liquidation)	1		100%	Ordinary	100%
Kier Gas 302 Limited (in liquidation)	1		100%	Ordinary A	100%
				Ordinary B	100%
Kier Harlow Limited	1	b	80.1%	Ordinary A	100%
Kier Highways Limited*	1		100%	Ordinary A	100%
				Ordinary B	100%
Kier Holdings Limited	1		100%	Ordinary	100%
				Irredeemable Preference Shares	100%
Kier Infrastructure and Overseas Limited	1		100%	Ordinary	100%
Kier Infrastructure Pty Ltd	12		100%	Ordinary	100%
Kier Insurance Limited	13		100%	Ordinary	100%
Kier Insurance Management Services Limited	1		100%	Ordinary	100%
Kier Integrated Services (Building) Limited (dissolved)	1		100%	Ordinary	100%
Kier Integrated Services (Estates) Limited	1		100%	Ordinary	100%
Kier Integrated Services (Holdings) Limited*	1		100%	Ordinary	100%
				Deferred	100%
Kier Integrated Services (Regional) Limited (dissolved)	1		100%	Ordinary	100%
Kier Integrated Services (Technical Services) Limited (dissolved)	1		100%	Ordinary	100%
Kier Integrated Services (Trustees) Limited	1		100%	Ordinary	100%
Kier Integrated Services Group Limited	1		100%	Ordinary	100%
Kier Integrated Services Limited	1		100%	Ordinary	100%
Kier International (Investments) Limited	1		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Kier International Limited	1		100%	Ordinary	100%
Kier International Limited	14		100%	Ordinary	100%
Kier Islington Limited	1		100%	Ordinary	100%
				Islington	100%
Kier Jamaica Development Limited	1		100%	Ordinary	100%
Kier London Limited (in liquidation)	1		100%	Ordinary	100%
Kier Management Consulting Limited	1		100%	Ordinary	100%
				Ordinary A	100%
				Ordinary B	100%
Kier Midlands Limited	1		100%	Ordinary	100%
Kier Minerals Limited	1		100%	Ordinary	100%
Kier Mining Investments Limited	1		100%	Ordinary	100%
Kier Mortimer Limited	1		100%	Ordinary	100%
Kier National Limited*	1		100%	Ordinary	100%
Kier North East Limited	1		100%	Ordinary	100%
Kier North Tyneside Limited	1	b	80%	Ordinary B	100%
Kier Overseas (Fifteen) Limited (in liquidation)	1		100%	Ordinary	100%
Kier Overseas (Four) Limited	1		100%	Ordinary	100%
Kier Overseas (Fourteen) Limited (in liquidation)	1		100%	Ordinary	100%
Kier Overseas (Nine) Limited	1		100%	Ordinary	100%
Kier Overseas (Nineteen) Limited (in liquidation)	1		100%	Ordinary	100%
Kier Overseas (Seventeen) Limited	1		100%	Ordinary	100%
Kier Overseas (Six) Limited (in liquidation)	1		100%	Ordinary	100%
Kier Overseas (Twelve) Limited	1		100%	Ordinary	100%
Kier Overseas (Twenty-Four) Limited (in liquidation)	1		100%	Ordinary	100%
Kier Overseas (Twenty-Three) Limited	1		100%	Ordinary	100%
Kier Overseas (Two) Limited	1		100%	Ordinary	100%
Kier Parkman Ewan Associates Limited	1		100%	Ordinary A	100%
Kier Parkman Ewan Services Limited (dissolved)	1		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Kier Parkman GB Limited	1		100%	Ordinary	100%
Kier Parkman LDA Limited (dissolved)	1		100%	Ordinary	100%
Kier Parkman Metro Limited (dissolved)	1		100%	Ordinary	100%
Kier Parkman Property Management Limited (dissolved)	1		100%	Ordinary	100%
Kier Parkman ServiGroup Limited	1		100%	Ordinary	100%
Kier Parkman ServiRail Construction Projects Limited (dissolved)	1		100%	Ordinary	100%
Kier Parkman ServiServices Limited (dissolved)	1		100%	Ordinary	100%
Kier Parkman ServiWays Limited (dissolved)	1		100%	Ordinary	100%
Kier Parkman Two (NI) Limited	15		100%	Ordinary	100%
Kier Partnership Homes Limited*	1		100%	Ordinary	100%
Kier Plant Limited	1		100%	Ordinary	100%
Kier Professional Services Limited	1		100%	Ordinary	100%
Kier Project Investment Limited*	1		100%	Ordinary	100%
Kier Property Developments Limited	1		100%	Ordinary	100%
Kier Property Limited*	1		100%	Ordinary	100%
Kier Property Management Company Limited	1		100%	Ordinary	100%
Kier Rail Limited	1		100%	Ordinary	100%
Kier Rail No.2 Limited	1		100%	Ordinary	100%
Kier Recycling CIC	1		100%	Ordinary	100%
Kier Scotland Limited	16		100%	Ordinary	100%
Kier Services Limited*	1		100%	Ordinary	100%
Kier Sheffield LLP	1	b	80.1%	-	-
Kier South East Limited	1		100%	Ordinary	100%
Kier Southern Limited	1		100%	Ordinary	100%
Kier Stoke Limited	1	b	80.1%	Ordinary A	100%
Kier Sydenham Limited	1		100%	Ordinary	100%
Kier Thurrock Limited	1		100%	Ordinary	100%
Kier Traffic Support Limited	1		100%	Ordinary	100%
Kier Trustee Limited (dissolved)	1		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Kier UKSC LLP	1		100%	-	-
Kier Ventures Limited	1		100%	Ordinary	100%
Kier Ventures UKSC Limited	1		100%	Ordinary	100%
Kier Whitehall Place Limited	1		100%	Ordinary	100%
Kier York Street LLP	1		100%	-	-
KM Docklands Hotel Limited (dissolved)	1		100%	Ordinary	100%
Lambeth Learning Partnership (PSP) Limited	1		65%	Ordinary	65%
Land Aspects Limited (dissolved)	1		100%	Ordinary	100%
Lazenby & Wilson Limited*	1		100%	Ordinary	100%
Liferange Limited	1		100%	Ordinary	100%
Marriott Limited	1		100%	Ordinary	100%
MGWSP Essex Limited (dissolved)	1		100%.	Ordinary	100%
Michco 210 Limited (dissolved)	1		100%	Ordinary	100%
MKB Resourcing Limited (dissolved)	1		100%	Ordinary	100%
Moss Construction Northern Limited	1		100%	Ordinary	100%
Moss Construction Southern Limited	1		100%	Ordinary	100%
Mouchel International (Jersey) Limited	17		100%	Ordinary	100%
MPHBS Limited	1			Ordinary	100%
MRBL Limited*	1		100%	Ordinary A	100%
				Ordinary B	100%
				Deferred B	100%
New Learning Limited (dissolved)	1		100%	Ordinary	100%
Newbury King & Co Limited	1		100%	Ordinary	100%
Norfolk Community Recycling Services Limited (dissolved)	1		100%	Ordinary A	100%
				Ordinary B	100%
Parkman Consultants Limited	1		100%	Ordinary	100%
Parkman Consulting Engineers (dissolved)	1		100%	Ordinary	100%
Parkman Group Professional Services Limited (dissolved)	1		100%	Ordinary	100%
Parkman Holdings Limited	1		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Parkman Kenya Limited	18		100%	Ordinary	100%
Parkman Nigeria Limited	19		100%	Ordinary	100%
Parkman Scotland Limited (dissolved)	7		100%	Ordinary	100%
Parkman South East Limited (dissolved)	1		100%	Ordinary A	100%
				Ordinary X	100%
PCE Holdings Limited (dissolved)	1		100%	Ordinary	100%
			100%	Ordinary C	100%
PFI Street Lighting Limited (dissolved)	1		100%	Ordinary	100%
Pure Buildings Limited	1		100%	Ordinary	100%
Pure Recycling Warwick Limited	1		100%	Ordinary A	100%
				Ordinary B	100%
Riley Builders Limited (in liquidation)*	1		100%	Ordinary	100%
Robert Marriott Group Limited*	1		100%	Ordinary	100%
Saudi Kier Construction Limited	22		100%	Ordinary	100%
Sea Place Management Limited	1		100%	Ordinary	100%
Senturion (BidCo) Limited	1		100%	Ordinary	100%
Senturion (MidCo) Limited	1		100%	Ordinary	100%
Senturion Group Limited	1		100%	Ordinary	100%
Senturion Trustees Limited (dissolved)	1		100%	Ordinary	100%
Social Power (Harlow) Holdings Limited	1		100%	Ordinary	100%
Social Power (Harlow) Limited	1		100%	Ordinary	100%
T Cartledge Limited	1		100%	Ordinary	100%
T H Construction Limited	1		100%	Ordinary	100%
T J Brent Limited	1		100%	Ordinary	100%
				B Ordinary	100%
				C Ordinary	100%
Tor2 Limited	1		80.01%	PSP Shares	100%
The Impact Partnership (Rochdale Borough) Limited	1		80.01%	Ordinary	80.01%
The Unity Partnership Limited	1		66.7%	Ordinary	66.7%
Traffic Support EBT Limited (dissolved)	1		100%	Ordinary	100%
Turriff Contractors Limited	16		100%	Ordinary	100%

16 Investments (continued)

Company name	Registered office[1]	Explanatory notes	Total % held by Group	Share class(es) held	% of share class held by Group
Turriff Group Limited	16		100%	Ordinary	100%
				Ordinary A	100%
				Ordinary B	100%
Turriff Smart Services Limited	16		100%	Ordinary	100%
Underground Moling Services Limited	16		100%	Ordinary	100%
Usherlink Limited	1		100%	Ordinary	100%
W. & C. French (Construction) Limited*	1		100%	Ordinary	100%
Wallis Builders Limited	1		100%	Ordinary	100%
Wallis Limited	1		100%	Ordinary	100%
Wallis Western Limited	1		100%	Ordinary	100%
William Moss Civil Engineering Limited	1		100%	Ordinary	100%
William Moss Group Limited (The)	1		100%	Ordinary	100%

The share capital of all entities is wholly owned and held indirectly by Kier Limited unless indicated otherwise.

* indicates direct investment of the Company

[1]see list of registered office addresses below.

Explanatory notes

a) 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.

b) The Group has entered into partnership arrangements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited.

16 Investments (continued)

Group joint ventures

Investments in joint ventures	**2017 £ m**	**2016 £ m**
(a) Movements in year		
At 1 July	130.1	80.8
Additions	41.2	61.8
Loan repayments	(1.3)	(1.0)
Disposals	(37.2)	(17.8)
Impairment	-	(5.0)
Share of operating profit	22.1	14.6
Share of finance costs	(1.7)	-
Share of taxation	(0.9)	(0.4)
Dividends received	(23.2)	(2.8)
Fair value movements in cash flow hedging instruments	(2.2)	(0.1)
Deferred tax on charge on items recognised directly in equity	0.4	-
At 30 June	127.3	130.1

16 Investments (continued)

b) Analysis of investment and loans	2017 £ m	2016 £ m
Assets		
Non-current assets		
Property, plant and equipment	118.2	101.5
Deferred tax assets	-	(0.1)
Other non-current assets	-	18.9
	118.2	120.3
Current assets		
Cash and trade receivables	137.3	202.2
Total assets	255.5	322.5
Equity and liabilities		
Current liabilities		
Trade and other payables	26.0	6.1
Borrowings	0.4	22.6
	26.4	28.7
Non-current liabilities		
Borrowings	152.7	225.8
Deferred tax liabilities	0.6	-
Financial instruments	2.4	0.6
	155.7	226.4
Total liabilities	182.1	255.1
Net external assets	73.4	67.4
Loans provided to joint ventures	53.9	62.7
Total investments in and loans to joint ventures	127.3	130.1

Details of the group joint ventures as at 30 June 2017 are as follows:

Company name	Explanatory notes	Registered office[1]	Interest held
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		2	50%
50 Bothwell Street Holdco 2 LLP		2	50%
50 Bothwell Street LLP		2	50%
Alliance Community Partnership Limited		3	10%

16 Investments (continued)

Company name	Explanatory notes	Registered office[1]	Interest held
Dragon Lane Holdings 1 LLP		1	50%
Dragon Lane Holdings 2 LLP		1	50%
Dragon Lane LLP		1	50%
Fore UK I B LP		2	29%
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 Foley Street Holdco 1 LLP		1	90%
Kier Foley Street Holdco 2 LLP		1	90%
Kier Foley Street LLP		1	90%
Kier Hammersmith Holdco Limited		1	50%
Kier Hammersmith Limited		1	50%
Kier Reading Holdco 1 LLP		1	90%
Kier Reading Holdco 2 LLP		1	90%
Kier Reading LLP		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%
2020 Knowsley Limited		1	80.1%
DM Roads Services Pty Ltd		5	50%
Hackney Schools for the Future Limited	d	1	40%
Kier Babcock Education Investments Limited	c	1	50%
Kier Babcock Education Services Limited	c	1	50%
Team Van Oord Limited		23	25%
VINCIMouchel Limited	b	25	50%

16 Investments (continued)

Company name	Explanatory notes	Registered office[1]	Interest held
Kier Warth Limited		1	50%
Kingswood Devco Holdings 1 LLP		1	50%
Kingswood Devco Holdings 2 LLP		1	50%
Kingswood Devco LLP		1	50%
Lysander Student Properties Investments Limited		1	75%
Lysander Student Properties Limited		1	75%
Lysander Student Properties Operations Limited		1	75%
Magnetic Limited		1	75%
Penda Limited*		1	50%
Premier Inn Kier Limited		1	50%
Sandy Lane (Oxford) Management Limited		21	22.5%
Solum Regeneration (Bishops) LLP		1	50%
Solum Regeneration (Epsom) Limited Partnership		1	49.95%
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 (Tanner) LLP		1	50%
Solum Regeneration (Tonbridge) 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	49.5%
Solum Regeneration Epsom (Residential) LLP		1	50%
Strawberry Percy Holdings 1 LLP		1	50%
Strawberry Percy Holdings 2 LLP		1	50%
Strawberry Percy LLP		1	50%

16 Investments (continued)

Company name	Explanatory notes	Registered office[1]	Interest held
Transcend Property Limited		24	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 Partnership LLP		1	50%
Winsford Devco LLP		1	50%
Winsford Holdings 1 LLP		1	50%
Winsford Holdings 2 LLP		1	50%
Blue3 (Staffs) (Holdings) Limited	a	1	80%
Blue3 (Staffs) Limited	a	1	80%
Evolution (Woking) Holdings Limited		1	50%
Evolution (Woking) Limited		1	50%
Kier Graham Defence Limited		1	50%
Rathenraw Limited (dissolved)		20	50%

* indicates direct investment of the Company

The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group has joint control.

[1]see list of registered office addresses below.

Explanatory notes
a) The interest of the Group was sold on 13 July 2017.
b) The interest of the Group was sold on 28 July 2017.
c) The entity became wholly owned on 26 October 2017.
d) The interest of the Group in this entity increased to 80% on 26 October 2017.

Group joint operations

BFK

The Group has a material joint operation, BFK, which is a joint arrangement between Kier Infrastructure and Overseas Limited, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited, engaged on Crossrail Contracts 300/410/435. Its trading address is Farringdon Road, London, EC1M 3HN.

Deephams

The Group has a material joint operation, Deephams, which is a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited, and Aecom Limited. Its trading address is Deephams Sewage Treatment Wales, Pickett's Lock Lane, Edmonton, N9 0BA.

16 Investments (continued)

Hercules

The Group has a material joint operation, Hercules, which is a joint arrangement between Kier Construction Limited, Kier Living Limited and Balfour Beatty. Its trading address is Hercules Site Offices, The Wessex Building, MOD Lynham, Calne Road, Lyneham, Chippenham, SN15 4PZ.

Hinkley Point C

The Group has a material joint operation, Hinkley Point C, which is a joint arrangement between Kier Infrastructure and Overseas Limited and BAM Nuttall Limited. Its trading address is Hinkley Point C Construction Site, Wick Moor Drove, Bridgwater, Somerset, TA5 1UD.

KCD

The Group has a material joint operation, KCD, which is a joint arrangement between Kier Integrated Services Limited and Clancy Docwra Limited. Its trading address is Thames Water Offices, Clear Water Court, Vastern Rd, Reading, RG1 8DB.

KMI Plus

The Group has a material joint operation, KMI Plus, which is a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Project Services Limited. Its trading address is Central Framework Office, Brunswick House, Hindley Green Business Park, Leigh Road, Hindley Green, Wigan, Greater Manchester, WN2 4TN.

KMI Water

The Group has a material joint operation, KMI Water, which is a joint arrangement between Kier Infrastructure and Overseas Limited, J Murphy & Sons Limited and Interserve Projects Limited. Its trading address is Central Framework Office, Brunswick House, Hindley Green Business Park, Leigh Road, Hindley Green, Wigan, Greater Manchester, WN2 4TN.

Mersey Gateway

The Group has a material joint operation, Mersey Gateway, which is a joint arrangement between Kier Infrastructure and Overseas Limited, Samsung C&T ECUK Limited and FCC Construccion S.A. Its trading address is Forward Point, Tan House Lane, Widnes, WA8 0SL.

Smart Motorways

The Group has a material joint operation, Smart Motorways, which is a joint arrangement between Kier Infrastructure and Overseas Limited and Carillion Construction Limited. Its trading address is M6 J16-J19 Project Office, Holmes Chapel Road, Sandbach, CW11 1SE.

Kier WSP

The Group has a material joint operation, Kier WSP, which is a joint arrangement between Kier Integrated Services Limited and WSP UK Limited. Its trading address is Northamptonshire Highways, Highways Depot, Harborough Rd, Brixworth, Northants, NN6 9BX.

16 Investments (continued)

DM Roads Services Pty Ltd

The Group has a material joint operation, DM Roads Services Pty Ltd, which is a joint arrangement between Mouchel International (Jersey) Limited and Downer EDI Works Pty Ltd. Its trading address is New South Wales, Australia, ACN 166 600 166.

DPDP-6003 Residential Project (Bluewaters)

The Group has a material joint operation, DPDP-6003 Residential Project (Bluewaters), which is a joint arrangement between Kier Infrastructure and Overseas Limited and Al Shafar General Contracting Co LLC. Its trading address is Bluewaters Island, Dubai.

MTRC Contract 824

The Group has a material joint operation, MTRC Contract 824, which is a joint arrangement between Kier Infrastructure and Overseas Limited and Kaden Construction Limited. Its trading address is Area 3.6, Tai Kong Po Tsuen, Kam Tin, Yuen Long, N.T., Hong Kong.

MTRC Contract 901

The Group has a material joint operation, MTRC Contract 901, which is a joint arrangement between Kier Infrastructure and Overseas Limited, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited. Its trading address is Admiralty Station, Hong Kong Island.

Saadiyat Rotana Hotel and Resort Complex

The Group has a material joint operation, Saadiyat Rotana Hotel and Resort Complex, which is a joint operation between Kier Infrastructure and Overseas Limited and Ali and Sons Contracting Co LLC. Sadiyat Island, Abu Dhabi.

Kier ACC

The Group has a material joint operation, Kier ACC, which is a joint arrangement between Kier Dubai LLC and Arabian Construction Co.SAL. Its trading address is AL Qudra Road, Dubai.

Registered office addresses

Number	Registered office address
1	Tempsford Hall, Sandy, Bedfordshire, SG19 2BD, UK
2	18, Saville Row, London, W1S 3PW, UK
3	Suite 1a, Willow House, Strathclyde Business Park, Bellshill, Lanarkshire, ML4 3PB, UK
4	Harbour Head, Harbour View, Kingston 17, Jamaica
5	Level 2, Triniti 3, Triniti Business Campus, 39 Delhi Road, North Ryde, NSW, 2113, Australia
6	Unit 39, Vastre Depot/Offices, (Old Severn Trent Building), Vastre Industrial Estate, Newtown, Powys, SY16 1DZ, UK
7	Lanark Court, Ellismuir Way, Tannochside Park, Uddingston, Glasgow, G71 5PW, UK

16 Investments (continued)

Number	Registered office address
8	c/o Grant Thornton, Cnr Bank Street and West Independence Sq Street, Basseterre, Saint Kitts and Nevis
9	Unit 896, PO Box: 61967 Level 08, Aya Business Center, Al Gaith Tower, Hamdan Street, Abu Dhabi, United Arab Emirates
10	151 Angle Avenue, Jean Paul II et Impasse Duverger, Turgeau, Port-au-Prince, Republic of Haiti
11	Unit 1501, P.O. Box 2, Thuraya Tower, Plot No C-008-001, TECOM, Dubai, United Arab Emirates
12	181 Adelaide Terrace, East Perth, WA, WA 6004, Australia
13	Mason Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey, UK
14	6th Floor, Wincome Centre 39 Des Voeux Road, Central, Hong Kong
15	Shorefield House, Kinnegar Drive, Holywood, Co Down, BT18 9JQ, UK
16	Campsie House, Buchanan Business Park, Cumbernauld Road, Stepps, Glasgow, G33 6HZ, UK
17	Sanne Group, 13 Castle Street, St Helier, JE4 5UT, Jersey, UK
18	5th Floor, Agip House, P.O. Box 41425, Nairobi, Kenya
19	9, N/Azikiwe St., Lagos, Nigeria
20	c/o Pinsent Masons LLP, 1 Lanyon Place, Belfast, BT1 3LP, UK
21	95, Ditchling Road, Brighton, BN1 4ST, UK
22	P.O. Box 677, 4th Floor, ATCO Building, King Khaled Road, Dammam-31421, KSA, United Arab Emirates
23	Bankside House, Henfield Road, Small Dole, Henfield, West Sussex, BN5 9XQ, UK
24	1, Kingsway, London, WC2B 6AN, UK
25	Astral House, Imperial Way, Watford, Hertfordshire, WD24 4WW, UK

Summary of the company investments

	2017 £ m	2016 £ m
Investments in subsidiaries	886.6	810.9

16 Investments (continued)

Subsidiaries	£ m
Cost or valuation	
At 1 July 2015	798.3
Additions	12.6
At 30 June 2016	810.9
At 1 July 2016	810.9
Additions	75.7
At 30 June 2017	886.6
Provision	
Carrying amount	
At 30 June 2017	886.6
At 30 June 2016	810.9

In preparation for the Group's sale of Mouchel Limited (see note 4), Kier Highways Limited (£25.4m) and the Mouchel Superannuation Fund and Mouchel Staff Pension Scheme (£50.3m) were transferred from Mouchel Limited to Kier Limited. The assumption of the associated pension liabilities of £50.3m has been treated as an investment as there was no consideration received.

17 Acquisitions and disposals

(a) Disposal of Mouchel Consulting (subsidiary)

On 12 October 2016, the Group disposed of its investment in Mouchel Limited, which together with its subsidiaries, comprised the Mouchel Consulting business.

	2017 £ m
Net sale proceeds	77.9
Costs of disposal	(24.0)
Other costs	(7.9)
Net assets disposed of	(6.0)
Profit on disposal	40.0

17 Acquisitions and disposals (continued)

(b) Disposal of investments in joint ventures
Property joint ventures
The property division typically uses joint ventures to structure transactions, and the Group considers disposals of such vehicles to be underlying trading which are in the underlying course of business.

During the year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interests in Blue3 (London) (Holdings) Limited, for a total consideration of £3.8m. The profit on disposal recognised in the year was £1.3m.

During the year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interests in Blue3 (Staffs) (Holdings) Limited, for a total consideration of £5.0m. The profit on disposal recognised in the year was £2.3m. In addition there is an element of deferred consideration totalling £1.4m not yet recognised which is likely to be recognised in the future.

On 2 September 2016 the Group acquired 100% of the share capital and loan notes of Lysander Student Properties Investments Limited (LSPIL). LSPIL had previously been held as a joint venture of which the Group had a 50% holding. The additional 50% of the share capital and loan notes were acquired from the joint venture partner for £3.6m. This transaction has been treated as a deemed disposal of a joint venture and subsequent acquisition of a subsidiary. A gain of £0.7m arose on the deemed disposal of the joint venture. Subsequent to the acquisition on 23 December 2016, the Group disposed of 25% of the share capital and loan notes of LSPIL, resulting in a 75% holding. This transaction has been treated as a deemed disposal of a subsidiary and subsequent acquisition of a joint venture due to the voting rights gained by the purchaser. A gain of £1.1m arose on the deemed disposal of a subsidiary.

Other joint venture disposals
On 13 July 2016, the Group disposed of its investment in Saudi Comedat Company Limited for £4.6m. Disposal costs of £0.6m had been incurred in the year. The net loss on disposal was £1.4m.

During the year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interest in Biogen Holdings Limited for a total consideration of £9.7m. The loss on disposal recognised in the year was £7.6m.

The total disposal proceeds of all investments in joint ventures during the year can be reconciled to the total profit on disposal as follows:

	2017 £ m	2016 £ m
Sale proceeds	35.7	20.4
Book value of net assets	(37.2)	(15.5)
Sale costs	(2.1)	(2.3)
(Loss)/profit on disposal	(3.6)	2.6

18 Other financial assets

	Group 2017 £ m	2016 £ m
Current financial assets		
Financial assets at fair value through profit and loss designated on initial recognition	-	1.1

19 Inventories

	2017 £ m	2016 £ m
Group		
Raw materials and consumables	17.6	13.7
Construction contracts in progress	133.3	184.8
Land and work in progress held for development	23.5	34.8
Work in progress	232.4	198.8
	406.8	432.1

20 Trade and other receivables

	Group		Company	
Current	2017 £ m	2016 £ m	2017 £ m	2016 £ m
Trade receivables	206.1	208.4	10.5	8.9
Construction contract retentions	74.5	78.5	-	-
Amounts receivable from joint ventures	2.8	7.8	-	-
Receivables from related parties	310.1	317.3	109.0	78.0
Prepayments and accrued income	130.7	127.5	5.0	4.7
Other taxation and social security	17.1	6.7	-	-
Other receivables	82.0	72.7	4.9	6.9
Total current trade and other receivables	823.3	818.9	129.4	98.5

20 Trade and other receivables (continued)

	Group		Company	
	2017	2016	2017	2016
Non-current	£ m	£ m	£ m	£ m
Construction contract retentions	32.1	25.2	-	-
Other receivables	0.7	1.1	-	-
Intercompany loans receivable	83.0	-	-	-
Total non-current trade and other receivables	115.8	26.3	-	-

The intercompany loan is interest bearing at a rate of 4% (2016: 4%) and repayable on 30 June 2020.

The fair value of those trade and other receivables classified as financial instrument loans and receivables are disclosed in the financial instruments note.

The group's exposure to credit and market risks, including impairments and allowances for credit losses, relating to trade and other receivables is disclosed in the financial risk management and impairment note.

21 Cash and cash equivalents

	Group		Company	
	2017	2016	2017	2016
	£ m	£ m	£ m	£ m
Other cash and cash equivalents	835.6	620.5	-	-
Bank overdrafts	(887.9)	(613.3)	(384.1)	(212.4)
(Net borrowings)/cash and cash equivalents in statement of cash flows	(52.3)	7.2	(384.1)	(212.4)

22 Share capital

Allotted, called up and fully paid shares

		2017		2016
	No.	£ m	No.	£ m
Ordinary of £1 each	88,000,007	88.0	88,000,000	88.0

During the year the Company issued 7 ordinary shares with nominal value of £1 each in exchange for consideration of £140.6m. Following the issue of shares the Company undertook a capital reduction exercise to reduce the resulting share premium account to nil in accordance with section 643 of the Companies Act 2006.

23 Loans and borrowings

	Group 2017 £ m	Group 2016 £ m	Company 2017 £ m	Company 2016 £ m
Current loans and borrowings				
Other borrowings	0.7	0.5	-	-

	Group 2017 £ m	Group 2016 £ m	Company 2017 £ m	Company 2016 £ m
Non-current loans and borrowings				
Other borrowings	1.3	1.1	-	-

The loans and borrowings classified as financial instruments are disclosed in the financial instruments note.

The group's exposure to market and liquidity risk; including maturity analysis, in respect of loans and borrowings is disclosed in the financial risk management and impairment note.

24 Obligations under leases and hire purchase contracts

Group

Finance leases

2017	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
At 1 July 2016	27.7	(1.4)	26.3
New obligations	1.8	(0.1)	1.7
Repayments	(14.3)	0.6	(13.7)
	15.2	(0.9)	14.3

2017	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
Within one year	9.6	(0.5)	9.1
Between one and five years	5.3	(0.3)	5.0
In over five years	0.3	(0.1)	0.2
	15.2	(0.9)	14.3

24 Obligations under leases and hire purchase contracts (continued)

2016	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
At 1 July 2015	42.6	(2.0)	40.6
New obligations	3.6	(0.5)	3.1
Repayments	(18.5)	1.1	(17.4)
	27.7	(1.4)	26.3

2016	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
Within one year	14.4	(0.9)	13.5
Between one and five years	13.3	(0.5)	12.8
	27.7	(1.4)	26.3

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

	2017 £ m	2016 £ m
Current liabilities	9.1	13.5
Non-current liabilities	5.2	12.8
	14.3	26.3

Group

Operating leases

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

	2017 £ m	2016 £ m
Within one year	39.7	18.9
Between one and five years	88.9	91.8
In over five years	114.4	24.9
	243.0	135.6

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period beyond 30 June 2017 of 25 years. Vehicle leases typically run for a period of four years. No leases include contingent rentals.

24 Obligations under leases and hire purchase contracts (continued)

Company

Finance leases

2017	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
At 1 July 2016	9.8	(0.3)	9.5
New obligations	0.2	-	0.2
Repayments	(5.2)	0.2	(5.0)
	4.8	(0.1)	4.7

2017	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
Within one year	3.3	(0.1)	3.2
Between one and five years	1.5	-	1.5
	4.8	(0.1)	4.7

2016	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
At 1 July 2015	11.7	(0.4)	11.3
New obligations	28.6	(0.5)	28.1
Repayments	(30.5)	0.6	(29.9)
	9.8	(0.3)	9.5

2016	Future minimum lease payments £ m	Interest £ m	Present value of minimum lease payments £ m
Within one year	5.1	(0.3)	4.8
Between one and five years	4.7	-	4.7
	9.8	(0.3)	9.5

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

	2017 £ m	2016 £ m
Current liabilities	3.2	4.8
Non-current liabilities	1.5	4.7
	4.7	9.5

24 Obligations under leases and hire purchase contracts (continued)

Company

Operating leases

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

	2017 £ m	2016 £ m
Within one year	4.6	0.7
Between one and five years	20.7	2.8
In over five years	92.8	3.2
	118.1	6.7

25 Pension and other schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £40.9m (2016 - £42.2m).

Other defined contribution schemes

Contributions are also made in respect of hourly paid operatives to an industry-wide stakeholder pension scheme. The pension costs for these have been taken as the actual contributions paid during the year.

The Group also 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.

Defined benefit pension schemes

Kier Group Pension Scheme

This is the principal scheme and includes a defined benefit section and a defined contribution section. The assets of the scheme 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 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.

Contributions paid to the pension scheme during the year were £16,900,000 (2016 - £15,500,000).

The expected contributions to the plan for the next reporting period are £13,400,000.

The Pension Protection Fund levy is payable in addition to the above contributions.

The scheme as at 30 June 2017 has 2,838 deferred members and 2,803 retirees.

25 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2017 £ m	2016 £ m
Fair value of scheme assets	1,108.4	1,065.4
Present value of scheme liabilities	(1,139.5)	(1,088.9)
Defined benefit pension scheme deficit	(31.1)	(23.5)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2017 £ m	2016 £ m
Fair value at start of year	1,065.4	919.4
Interest income	29.3	35.2
Return on plan assets, excluding amounts included in interest income	46.7	145.1
Employer contributions	16.9	15.5
Benefits paid	(48.9)	(48.9)
Administrative expenses paid	(1.0)	(0.9)
Fair value at end of year	1,108.4	1,065.4

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ m	2016 £ m
Equities, property and other return-seeking assets	711.0	684.0
Government bonds, cash, swaps and collateral	397.4	381.4
	1,108.4	1,065.4

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

25 Pension and other schemes (continued)

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2017 £ m	2016 £ m
Present value at start of year	1,088.9	994.6
Actuarial gains and losses arising from changes in demographic assumptions	(15.9)	-
Actuarial gains and losses arising from changes in financial assumptions	85.6	105.3
Interest cost	29.8	37.9
Benefits paid	(48.9)	(48.9)
Present value at end of year	1,139.5	1,088.9

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2017 %	2016 %
Discount rate	2.7	2.8
Rate of increase to pensions in payment liable for Limited Price Indexation	2.3	2.8
Inflation (RPI)	3.2	2.8
Inflation (CPI)	2.1	1.7

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age - male	27.3	27.8
Current UK pensioners at retirement age - female	29.4	29.7
Future UK pensioners at retirement age - male	28.7	28.9
Future UK pensioners at retirement age - female	31.0	31.0

The mortality assumptions above assume a retirement age of 60.

25 Pension and other schemes (continued)

Amounts recognised in the income statement

	2017 £ m	2016 £ m
Amounts recognised in operating profit		
Administrative expenses paid	(1.0)	(0.9)
Amounts recognised in finance income or costs		
Net interest	(0.5)	(2.7)
Total recognised in the income statement	(1.5)	(3.6)

Amounts taken to the Statement of Comprehensive Income

	2017 £ m	2016 £ m
Actuarial gains and losses arising from changes in demographic assumptions	15.9	-
Actuarial gains and losses arising from changes in financial assumptions	(85.6)	(105.3)
Return on plan assets, excluding amounts included in interest income	46.7	145.1
Amounts recognised in the Statement of Comprehensive Income	(23.0)	39.8

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	2017		2016	
Adjustment to discount rate	**+ 0.25%** **£ m**	**- 0.25%** **£ m**	**+ 0.25%** **£ m**	**- 0.25%** **£ m**
(Increase)/decrease in present value of total obligation	45.4	(48.2)	43.7	(46.4)

	2017		2016	
Adjustment to rate of inflation	**+ 0.25%** **£ m**	**- 0.25%** **£ m**	**+ 0.25%** **£ m**	**- 0.25%** **£ m**
(Increase)/decrease in present value of total obligation	(43.2)	41.5	(41.6)	40.7

	2017		2016	
Adjustment to mortality age rating assumption	**+ 1 Year** **£ m**	**- 1 Year** **£ m**	**+ 1 Year** **£ m**	**- 1 Year** **£ m**
(Increase)/decrease in present value of total obligation	(36.1)	36.3	(32.9)	32.9

25 Pension and other schemes (continued)

May Gurney defined benefit scheme

The May Gurney defined benefit scheme was acquired by Kier Limited on 30 June 2015 when the May Gurney group was transferred within the Kier Group.

The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions and holding the assets, and delegate day-to-day decisions to independent professional investment managers.

The scheme has closed to future accrual.

Contributions paid to the pension scheme during the year were £2,100,000 (2016 - £1,900,000).

The expected contributions to the plan for the next reporting period are £2,400,000.

The scheme was most recently valued on 31 March 2014. An actuarial valuation of the May Gurney scheme was undertaken by the trustees' independent actuaries using the projected unit method. The market value of the scheme's assets at that date was £62.0m which represented approximately 83% of the benefits that had accrued to members at that date, after allowing for future increases in pensionable salaries.

The scheme as at 30 June 2017 has 365 deferred members and 274 retirees.

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2017 £ m	2016 £ m
Fair value of scheme assets	76.9	72.4
Present value of scheme liabilities	(82.8)	(78.4)
Defined benefit pension scheme deficit	(5.9)	(6.0)

25 Pension and other schemes (continued)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2017 £ m	2016 £ m
Fair value at start of year	72.4	66.4
Interest income	2.0	2.6
Return on plan assets, excluding amounts included in interest income	4.3	4.5
Employer contributions	2.1	1.9
Benefits paid	(3.5)	(2.7)
Administrative expenses paid	(0.4)	(0.3)
Fair value at end of year	76.9	72.4

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ m	2016 £ m
Equities, property and other return-seeking assets	53.4	28.7
Government bonds, cash, swaps and collateral	23.5	43.7
	76.9	72.4

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2017 £ m	2016 £ m
Present value at start of year	78.4	69.9
Actuarial gains and losses arising from changes in financial assumptions	5.8	8.5
Interest cost	2.1	2.7
Benefits paid	(3.5)	(2.7)
Present value at end of year	82.8	78.4

25 Pension and other schemes (continued)

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2017 %	2016 %
Discount rate	2.7	2.8
Rate of increase to pensions in payment liable for Limited Price Indexation	2.3	2.8
Inflation (RPI)	3.2	2.8
Inflation (CPI)	2.1	1.7

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age - male	26.5	26.5
Current UK pensioners at retirement age - female	28.8	28.8
Future UK pensioners at retirement age - male	28.1	28.1
Future UK pensioners at retirement age - female	30.5	30.5

The mortality assumptions above assume a retirement age of 60.

Amounts recognised in the income statement

	2017 £ m	2016 £ m
Amounts recognised in operating profit		
Administrative expenses paid	(0.4)	(0.3)
Amounts recognised in finance income or costs		
Net interest	(0.1)	(0.1)
Total recognised in the income statement	(0.5)	(0.4)

Amounts taken to the Statement of Comprehensive Income

	2017 £ m	2016 £ m
Actuarial gains and losses arising from changes in financial assumptions	(5.8)	(8.5)
Return on plan assets, excluding amounts included in interest income	4.3	4.5
Amounts recognised in the Statement of Comprehensive Income	(1.5)	(4.0)

25 Pension and other schemes (continued)

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	2017		2016	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
Adjustment to discount rate	£ m	£ m	£ m	£ m
(Increase)/decrease in present value of total obligation	3.5	(3.7)	3.3	(3.5)

	2017		2016	
	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
Adjustment to rate of inflation	£ m	£ m	£ m	£ m
(Increase)/decrease in present value of total obligation	(3.3)	3.2	(3.2)	3.0

	2017		2016	
Adjustment to mortality age rating assumption	+ 1 Year £ m	- 1 Year £ m	+ 1 Year £ m	- 1 Year £ m
(Increase)/decrease in present value of total obligation	(2.3)	2.3	(2.1)	2.1

Acquired with the Mouchel Group

The Group acquired a number of defined benefit pension schemes with the Mouchel Group.

The assets of the scheme are held in trust separate from the assets of the Group. The trustees are responsible for decisions and holding the assets, and delegate day-to-day decisions to independent professional investment managers.

These schemes were closed to new entrants in 2001. Other than the 'public sector comparable' parts, the Mouchel schemes were closed to future accrual in 2010. The remaining parts of most of the Mouchel schemes were closed to future accrual in the current year, resulting in a total curtailment gain of £6.0m. A single 'public sector comparable' scheme remains open to future accrual.

Contributions paid to the pension scheme during the year were £12,300,000 (2016 - £9,700,000).

The expected contributions to the plan for the next reporting period are £8,600,000.

The scheme was most recently valued on 31 March 2016.

In total, the schemes as at 30 June 2017 have 18 active members, 1,994 deferred members and 1,444 retirees.

25 Pension and other schemes (continued)

Reconciliation of scheme assets and liabilities to assets and liabilities recognised

The amounts recognised in the statement of financial position are as follows:

	2017 £ m	2016 £ m
Fair value of scheme assets	451.5	422.8
Present value of scheme liabilities	(499.1)	(481.1)
Defined benefit pension scheme deficit	(47.6)	(58.3)

Scheme assets

Changes in the fair value of scheme assets are as follows:

	2017 £ m	2016 £ m
Fair value at start of year	422.8	356.3
Interest income	11.8	13.8
Return on plan assets, excluding amounts included in interest income	20.9	60.6
Employer contributions	12.3	9.7
Contributions by scheme participants	-	0.3
Benefits paid	(15.4)	(16.7)
Administrative expenses paid	(0.9)	(1.2)
Fair value at end of year	451.5	422.8

Analysis of assets

The major categories of scheme assets are as follows:

	2017 £ m	2016 £ m
Land	17.3	16.2
Equities, property, and other return-seeking assets	390.3	364.3
Government bonds, cash, swaps and collateral	43.9	42.3
	451.5	422.8

The pension scheme has not invested in any of the Company's own financial instruments or in properties or other assets used by the Company.

25 Pension and other schemes (continued)

Scheme liabilities

Changes in the present value of scheme liabilities are as follows:

	2017 £ m	2016 £ m
Present value at start of year	481.1	431.2
Current service cost	0.5	0.9
Past service cost	(6.0)	-
Actuarial gains and losses arising from changes in demographic assumptions	(8.7)	-
Actuarial gains and losses arising from changes in financial assumptions	34.5	48.8
Actuarial gains and losses arising from experience adjustments	(0.1)	-
Interest cost	13.2	16.5
Benefits paid	(15.4)	(16.5)
Contributions by scheme participants	-	0.2
Present value at end of year	499.1	481.1

Principal actuarial assumptions

The significant actuarial assumptions used to determine the present value of the defined benefit obligation at the statement of financial position date are as follows:

	2017 %	2016 %
Discount rate	2.7	2.8
Rate of general increase in pensionable salaries	3.2	2.8
Rate of increase to pensions in payment liable for Limited Price Indexation	2.2	1.9
Inflation (RPI)	3.2	2.8
Inflation (CPI)	2.1	1.7

Post retirement mortality assumptions

	2017 Years	2016 Years
Current UK pensioners at retirement age - male	27.0	27.3
Current UK pensioners at retirement age - female	29.1	29.8
Future UK pensioners at retirement age - male	28.8	29.1
Future UK pensioners at retirement age - female	31.1	31.7

The mortality assumptions above assume a retirement age of 60.

25 Pension and other schemes (continued)

Amounts recognised in the income statement

	2017 £ m	2016 £ m
Amounts recognised in operating profit		
Current service cost	(0.5)	(0.9)
Past service cost	6.0	-
Administrative expenses paid	(0.9)	(1.2)
Recognised in arriving at operating profit	4.6	(2.1)
Amounts recognised in finance income or costs		
Net interest	(1.4)	(2.8)
Total recognised in the income statement	3.2	(4.9)

Amounts taken to the Statement of Comprehensive Income

	2017 £ m	2016 £ m
Actuarial gains and losses arising from changes in demographic assumptions	8.7	-
Actuarial gains and losses arising from changes in financial assumptions	(34.5)	(48.8)
Actuarial gains and losses arising from experience adjustments	0.1	-
Return on plan assets, excluding amounts included in interest income/(expense)	20.9	60.6
Amounts recognised in the Statement of Comprehensive Income	(4.8)	11.8

Sensitivity analysis

A sensitivity analysis for the principal assumptions used to measure scheme liabilities is set out below:

	2017		2016	
Adjustment to discount rate	**+ 0.25% £ m**	**- 0.25% £ m**	**+ 0.25% £ m**	**- 0.25% £ m**
(Increase)/decrease in present value of total obligation	21.3	(22.5)	20.8	(22.2)

	2017		2016	
Adjustment to rate of inflation	**+ 0.25% £ m**	**- 0.25% £ m**	**+ 0.25% £ m**	**- 0.25% £ m**
(Increase)/decrease in present value of total obligation	(22.4)	21.2	(22.1)	20.8

	2017		2016	
Adjustment to mortality age rating assumption	**+ 1 Year £ m**	**- 1 Year £ m**	**+ 1 Year £ m**	**- 1 Year £ m**
(Increase)/decrease in present value of total obligation	(14.2)	14.2	(13.1)	13.1

25 Pension and other schemes (continued)

Company
All schemes apart from the May Gurney (£5.9m liability), Mouchel Business Services Limited Pension scheme (Final Salary section) (£3.7m surplus) and EM Highways Prudential Platinum Scheme (£0.4m surplus) (acquired with the Mouchel Group scheme) are included in the company only financial statements.

In 2016 the Company was responsible for the Kier Group Pension Scheme. During the year the Company acquired the Mouchel Superannuation Fund and Mouchel Staff Pension Scheme for £50.3m.

26 Share-based payments

The Kier Group Savings Related Share Option Scheme ("Sharesave")

Scheme details and movements
Participation in the Kier Group plc 2006 Sharesave scheme is offered to all employees of the Group who have been employed for a continuous period determined by the Kier Group plc board of directors. Under the Sharesave contract participating employees save a regular sum each month for three years of not less than £5 and not more than £500 per month.

Options to acquire ordinary shares in the capital of Kier Group plc were granted to eligible employees who entered into a Sharesave contract. The number of options granted were that number of shares which had an aggregate option price not exceeding the projected proceeds of the Sharesave contract including any bonus.

Options granted under the Sharesave scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Kier Group.

Out of the 2,083,291 outstanding options (2016 - 2,009,243 options), none (2016 - 176,361) were exercisable. Options exercised in 2017 resulted in 219,623 shares (2016 - 532,976 shares) being issued at a weighted average exercise price of £9.09 each (2016 - £8.40 each). The related weighted average share price at the time of exercise was £11.66 (2016 - £11.24) per share.

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

Scheme details and movements
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. Awards under the LTIP are all equity settled.

The awards which are taken as shares are intended to be satisfied from the following shares held by the Kier Group 1999 Employee Benefit Trust and May Gurney Group Trustees Ltd Employee Share Ownership Plan Trust rather than from the issue of new shares. These shares are accounted for as a deduction from retained earnings.

Out of the 3,328,621 outstanding options (2016 - 2,726,476 options), none (2016 - none) were exercisable. Options exercised in 2017 resulted in 197,553 shares (2016 - none) being issued at a nil exercise price. The market price of Kier Group plc shares at the date of exercise of LTIP options was £13.60 (2016: no LTIP options exercised).

26 Share-based payments (continued)

The May Gurney Savings Related Share Option Scheme ("Sharesave Scheme")

Scheme details and movements

Prior to being acquired by Kier Group plc in July 2013, Kier Integrated Services Limited's ultimate parent company was May Gurney Integrated Services plc ("MGIS") (now Kier Integrated Services (Holdings) Limited), which was AIM listed. MGIS had various share options schemes for the benefit of employees within the MGIS group. For options granted since MGIS was listed on AIM in June 2006, independent valuations have been used to determine the fair values for share-based payments.

The May Gurney Sharesave Scheme was established in July 2007. Participation was offered to all employees of the company who had been employed for a continuous period determined by the board of directors. Under the Sharesave contract participating employees saved a regular sum each month for three years of not less than £5 and not more than £250 per month.

Options to acquire ordinary shares in the capital of MGIS were granted to eligible employees who entered into a Sharesave contract. The number of options granted were that number of shares which had an aggregate option price not exceeding the projected proceeds of the Sharesave contract including any bonus. The option price per share was not less than 80% of the market value of an ordinary share on the day on which invitations to apply for options were issued. The options were converted from MGIS shares to Kier Group plc shares following the acquisition of MGIS by Kier Group plc in July 2013.

Options granted under the Sharesave Scheme normally lapse in the event an option holder ceases to remain an employee or officer of the Company or any of the Company's subsidiaries.

There are no outstanding options in respect of these schemes at the year end date (2016 - none). Options exercised in 2016 resulted in 129,262 shares being issued at a weighted average exercise price of £5.94 each. The related weighted average share price at the time of exercise was £13.60 per share.

Other May Gurney schemes

Scheme details and movements

Share options over MGIS shares were awarded to certain key employees following company aquisitions made by the MGIS group. The options were converted from MGIS shares to Kier Group plc shares following the acquisition of MGIS by Kier Group plc in July 2013. At 30 June 2016 options over 49,076 Kier Group plc shares remained in respect of two of these schemes. All of these options lapsed during the current year; none were exercised.

27 Provisions

Group

	Insurance claims £ m	Restoration of mining sites £ m	HSE regulatory £ m	Other provisions £ m	Total £ m
At 1 July 2016	7.2	-	-	49.9	57.1
Charged to income statement	0.2	-	8.0	22.8	31.0
Divested	(2.5)	-	-	(4.9)	(7.4)
Transfers	-	8.7	-	-	8.7
Utilised	(3.1)	(3.2)	(2.9)	(27.9)	(37.1)
Unwinding of discount	-	-	-	2.5	2.5
At 30 June 2017	1.8	5.5	5.1	42.4	54.8
Current liabilities	-	-	-	19.0	19.0
Non-current liabilities	1.8	5.5	5.1	23.4	35.8

Insurance provisions are in respect of legal and other disputes in various Group companies.

Mining provisions of £8.7m, representing the cost of restoration of opencast mining activities, have been transferred from the disposal group (see note 5) following the Group's decision in the year not to exit from its UK Mining operations.

HSE regulatory provisions are in respect of potential fines arising from changes to safety, health and environmental legislation and regulation (see note 8 to the financial statements).

Other provisions primarily represent contractual obligations on cessation of certain contracts and fair value provisions.

Company

	HSE regulatory £ m	Other provisions £ m	Total £ m
At 1 July 2016	-	0.9	0.9
Charged to income statement	8.0	8.2	16.2
Utilised	(2.9)	(5.3)	(8.2)
At 30 June 2017	5.1	3.8	8.9
Current liabilities	-	3.8	3.8
Non-current liabilities	5.1	-	5.1

28 Trade and other payables

	Group		Company	
	2017	2016	2017	2016
Current	£ m	£ m	£ m	£ m
Trade payables	472.9	402.2	15.4	18.0
Subcontract retentions	52.5	54.2	-	-
Construction contract balances	393.0	333.3	-	-
Accrued expenses	259.9	342.5	14.5	14.3
Social security and other taxes	62.4	61.6	32.0	28.0
Other payables	86.0	78.6	8.7	16.4
Payments received on account	18.1	29.8	-	-
	1,344.8	1,302.2	70.6	76.7

	Group		Company	
	2017	2016	2017	2016
Non-current	£ m	£ m	£ m	£ m
Trade payables	1.8	1.1	-	-
Sub-contract retentions	14.3	12.1	-	-
Other payables	-	0.5	1.2	0.9
Intercompany loans payable	876.1	842.4	547.1	526.1
	892.2	856.1	548.3	527.0

The intercompany loan is interest bearing at a rate of 4% (2016: 4%) and repayable on 30 June 2020.

The fair value of the trade and other payables classified as financial instruments are disclosed in the financial instruments note.

The group's exposure to market and liquidity risks, including maturity analysis, related to trade and other payables is disclosed in the financial risk management and impairment note.

29 Commitments

Group

Commitments for capital expenditure

The total amount contracted for but not provided in the financial statements was £4,800,000 (2016 - £7,900,000).

Commitments for equity and subordinate debt in joint ventures

The total amount of other financial commitments not provided in the financial statements was £4,700,000 (2016 - £9,800,000).

30 *Contingent liabilities*

Group

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements, including joint operations and joint ventures, entered into in the normal course of business. During the year, the directors have reviewed the aggregate potential liability which may arise from certain safety, health and environmental incidents which took place before the implementation of relevant sentencing guidelines in February 2016. Following the review, a provision has been made for the directors' current estimate of the financial impact on the Group. For further details, please see note 8 to the financial statements.

31 Financial risk management and impairment of financial assets

Group

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 four operating divisions of the Group have complementary capital characteristics, with the Construction division, and to a lesser extent the Services division, generating a net cash surplus, whilst the Property and Residential divisions require net capital to fund developments. 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. The Group's overall capital risk management strategy remains unchanged from 2016.

Capital risk management (continued)

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 notes 21 and 23 and described further below. The Group forecasts and monitors short, medium and longer-term capital needs on a regular basis and adjusts its capital structure as required through the payment of dividends to shareholders, the issue of new share capital and the increase or repayment of borrowings. All investment decisions are made with regard to the Group's weighted average cost of capital and typically a pre-tax annualised return of at least 15.0% is required 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.

31 Financial risk management and impairment of financial assets (continued)

Credit risk
Credit risk arises on financial instruments such as trade receivables, short-term bank deposits. 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 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 included in the balance sheet are stated net of bad debt provisions which have been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

An analysis of the provision held against trade receivables is set out below:

	2017 £m	2016 £m
Provision as at 1 July	20.0	14.3
(Credited)/charged to the income statement	(0.8)	5.7
Divested in the year	(11.0)	-
Provision as at 30 June	8.2	20.0

There were £81.5m (2016: £88.0m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £48.5m (2016: £43.2m) had been received by the end of August 2017. There are no indications as at 30 June 2017 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 un-provided. The proportion of trade receivables at 30 June 2017 that were overdue for payment was 39.4% (2016: 42.5%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction 16 days (2016: 19 days)
Services 14 days (2016: 12 days)

Overall, the Group considers that it is not exposed to significant credit risk.

Market risk

Interest rate risk
The Group has asset finance which carries interest at a fixed rate. The Group's borrowings can be analysed as follows:

	2017 £m	2016 £m
Fixed rate	2.2	1.6
	2.2	1.6

31 Financial risk management and impairment of financial assets (continued)

In addition, a number of the Group's joint ventures have entered into interest rate swaps where there is significant interest rate risk.

Foreign currency risk
The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant. Where significant foreign currency exposures are identified, these are hedged using forward foreign exchange contracts or swaps by its parent company, Kier Group plc.

Liquidity risk
The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund operations without the need to carry significant net debt over the medium term.

Derivative financial instruments
A number of the Group's PFI and property joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 20 and 25 years and are without recourse to the Group. At 30 June 2017 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £82.9m (2016: £121.9m). The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2017 amounted to £6.3m (2016: £8.0m) which, together with the related deferred tax asset of £1.1m (2016: £1.4m), have met the criteria for hedge accounting.

These derivatives are classified as level 2. The prices of derivative transactions have been derived from proprietary models used by the joint ventures' bank counterparties using mid-market mark to market valuations for trades between the joint ventures and those counterparties at the close of business on 30 June 2017.

Financial assets

Loans and receivables at amortised cost, cash and cash equivalents	2017 £ m	2016 £ m
Cash and cash equivalents	-	7.2
Trade and other receivables (including £115.8m due after more than one year) - excluding prepayments	808.5	717.7
Loans to joint ventures	53.9	62.7
	862.4	787.6

31 Financial risk management and impairment of financial assets (continued)

Financial liabilities

At 30 June 2017 the Group had the following financial liabilities at amortised cost together with the maturity profile of their contractual cash flows:

30 June 2017 - Continuing operations	Trade and other payables[1] £ m	Borrowings £ m	Finance lease obligations £ m	Total £ m
Carrying value	2,156.5	2.2	14.3	2,173.0
Contractual cash flows				
Less than one year	1,264.3	0.9	9.6	1,274.8
One to two years	16.1	0.9	4.2	21.2
Two to three years	-	0.9	0.6	1.5
Three to four years	876.1	0.3	0.3	876.7
Four to five years	-	0.2	0.2	0.4
Over five years	-	-	0.3	0.3
	2,156.5	3.2	15.2	2,174.9

30 June 2016 - Continuing operations	Trade and other payables[1] £ m	Borrowings £ m	Finance lease obligations £ m	Total £ m
Carrying value	2,066.9	1.6	26.3	2,094.8
Contractual cash flows				
Less than one year	1,210.8	0.7	14.4	1,225.9
One to two years	13.7	0.3	10.0	24.0
Two to three years	-	0.3	3.0	3.3
Three to four years	842.4	0.3	0.3	843.0
Four to five years	-	0.2	-	0.2
Over five years	-	-	-	-
	2,066.9	1.8	27.7	2,096.4

[1] Trade and other payables exclude other taxes and social security and payments on account.

There is no material difference between the carrying value and fair value of the Group's financial assets and liabilities. The Group has a bank loan of £2.2m (2016: £1.6m).

32 Related party transactions

Key management personnel

Summary of transactions with key management

There were no related party transactions with directors or key management during the year nor in the prior year, other than that disclosed in note 11.

Transactions with joint ventures

	2017 £ m	2016 £ m
Management services	3.4	3.0
Interest on loans to joint ventures	-	0.3
	3.4	3.3

Amounts due from/(to) joint ventures are analysed below:

	2017 £ m	2016 £ m
Saudi Comedat Company Limited	-	(0.4)
Staffordshire Property Partnership	0.1	-
Kier Trade City Holdco 1 LLP	10.7	10.3
Kier Reading Holdco 1 LLP	15.0	15.0
3 Sovereign Square Holdings LLP	-	3.0
Tri-link 140 Holdings LLP	1.4	1.4
Kier Foley Street LLP	20.9	20.9
Blue3 (London) (Holdings) Limited	-	2.1
Kier (Newcastle) Investment Limited	-	4.8
Lysander Student Properties Investments Limited	-	3.3
Blue3 (Staffs) Holding Limited	-	2.3
Winsford Devco LLP	1.1	-
50 Bothwell Street Holdco 1 LLP	4.7	-
	53.9	62.7

33 Parent and ultimate parent undertaking

The Company's immediate parent is Kier Group plc.

The parent of the smallest and largest group in which these financial statements are consolidated is Kier Group plc. These financial statements are available upon request from Companies House and at www.kier.co.uk.

The ultimate controlling party is Kier Group plc.

The registered office of Kier Group plc is Tempsford Hall, Sandy, Bedfordshire, SG19 2BD.

34 Non adjusting events after the financial period

Acquisition of McNicholas

On 12 July 2017, the Group acquired the entire share capital of McNicholas Construction (Holdings) Limited ("McNicholas"), a leading infrastructure services provider. The acquisition of McNicholas builds on the Group's strategy to accelerate growth and hold leading positions in its chosen markets. The Board believes the acquisition is a highly complementary addition to the Group's utility services business and enhances the Group's presence in the power, rail and telecoms markets, with its long-standing client relationships.

The maximum consideration payable for the acquisition is £27.4m, comprising £13.4m in cash paid at completion and £14.0m of deferred contingent consideration. The £14.0m of deferred contingent consideration comprises:

• £9.5m in cash payable on achieving certain EBITDA (earnings before interest, tax, depreciation and amortisation) targets; and
• £4.5m payable on achieving debt-recovery targets.

The fair value of the total consideration expected to be paid is £21.9m.

The fair value of net liabilities acquired totalled £33.0m. Due to the proximity of the acquisition to the Group's reporting date, the fair values of assets and liabilities acquired are provisional to allow for further adjustments in the measurement period.

The difference between the fair value of consideration and net liabilities acquired of £54.9m will be attributed to goodwill and intangible fixed assets including contract rights. None of the goodwill recognised is expected to be deductible for tax purposes.

The majority of the £1.8m of acquisition costs were incurred in the year and were expensed to the income statement as a non-underlying item.

As McNicholas was acquired after the end of the current reporting period, the business made no contribution to the Group revenue or underlying profit before taxation in the year.