KIER **News Release**

To be released on 20 September 2018 at 0700 hours *

Kier Group plc, a leading infrastructure services, buildings and developments & housing group, announces its year end results for the year ended 30 June 2018

Strong market-leading positions and record order books of £10.2bn providing confidence for the future

Underlying[1]			
	Year ended 30 June 2018	**Year ended 30 June 2017**	**Change %**
Revenue[2; 3]	**£4.5bn**	**£4.3bn**	***+5***
Profit from operations[3]	**£160m**	**£146m**	***+10***
Operating margin[3]	**3.6%**	**3.4%**	
Profit before tax[3]	**£137m**	**£126m**	***+9***
Profit for the year[3]	**£113m**	**£100m**	***+13***
Basic earnings per share	**116.7p**	**106.8p**	***+9***
Proposed full year dividend per share	**69.0p**	**67.5p**	***+2***
Net debt[4]	**£186m**	**£110m**	
Statutory			
	Year ended 30 June 2018	**Year ended 30 June 2017[1]**	
Group revenue	**£4.2bn**	**£4.1bn**	
Profit from operations	**£134m**	**£8m**	
Profit for the year	**£88m**	**£12m**	
Basic earnings per share	**89.8p**	**11.1p**	

[1] *Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1 to the financial statements)*
[2] *Group and share of joint ventures*
[3] *Stated before non-underlying items (see note 3)*
[4] *Stated net of the effect of hedging instruments*

Good performance in line with our expectations

- Underlying revenue[2] up 5%, underlying profit from operations[3] up 10% and underlying EPS[3] up 9%
- Record Construction and Services order book of £10.2bn
- Proposed full year dividend per share increased by 2% to 69.0p (2017: 67.5p) and on track for 2x cover target in FY20.

Future Proofing Kier (FPK) programme launched

- FPK launched in June 2018 to provide greater operational focus and efficiency; improve cash generation and profitability; accelerate the reduction in net debt and exit non-core activities
- Neutral annual profit and free cash flow effects in FY19
- Anticipated additional annual profit and free cash flow improvements of at least £20m in FY20, representing 10% of profit from operations
- Targeted proceeds of £30m-£50m from disposal of non-core businesses.

Debt improvement plan underway

- Annual free cash flow of £20m-£40m to service debt reduction in FY19 and thereafter supplemented by anticipated financial FPK benefits, stated above
- Investment in Property and Residential divisions stabilised and sufficient to deliver our Vision 2020 target
- Targeting average net debt of c.£250m and a year-end net cash position for FY21.

Good operational performance

- Property – 27% Return on Capital Employed (ROCE), development pipeline of more than £1.5bn providing 10-year visibility; improving capital efficiency through increased use of joint ventures
- Residential – achieved Vision 2020 ROCE target two years early (2017: 11%); development pipeline of more than £2bn; launch of a 10-year housebuilding joint venture with Homes England and Cross Keys Homes

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Issued by the Kier communications department, Tempsford Hall, Sandy, Bedfordshire SG19 2BD
Tel: 01767 355000 Email: info@kier.co.uk
kier.co.uk

- Construction – £2.7bn contract awards in the year with over 70% on frameworks generating a record order book of £5.0bn; stable margin of 2%; and 90% of target revenue secured for FY19
- Services – £1.9bn contract awards in the year generating an order book of £5.2bn; McNicholas integration complete; two three-year extensions secured for Highways England worth c.£250m per annum and two six month extensions on Areas 6 and 8 also secured; stable 5% operating margin and 90% of target revenue secured for FY19.

Commenting on the results, Haydn Mursell, chief executive, said: *"I am pleased to report a good set of results with all divisions performing well. We have launched the Future Proofing Kier programme which will streamline the business thereby enabling us to deliver a more efficient service to clients, respond to changes in our markets and capitalise on growth opportunities, whilst, importantly, also accelerating the reduction of the Group's net debt position.*

"Our strong market-leading positions, our record £10.2bn Construction and Services order books, and our £3.5bn property development and residential pipelines, will see the Group deliver on its Vision 2020 targets. In addition, the Future Proofing Kier programme positions the Group well for an improvement in operating margins and higher cash generation, culminating in a net cash position for FY21."

- ENDS -

There will be a presentation of the year end results to analysts and investors at 0900 hours British Summer Time on 20 September 2018 at FTI Consulting, 200 Aldersgate, Aldersgate Street, London EC1A 4HD and a live webcast: https://www.investis-live.com/kier/5b7538320d2c9e0a0096747a/hfeb which will also be recorded and made available later in the day on the Kier website.

For further information, please contact:

Louise Turner-Smith, Kier investor relations	+44(0)7976 790012
Kier press office	+44 (0)1767 355903
Richard Mountain/Nick Hasell, FTI Consulting	+44 (0)203 727 1340

CHIEF EXECUTIVE'S OVERVIEW

I am pleased to report a good performance for the year with both revenue and profit growth in line with our expectations. We remain focused on delivering for our clients, reducing our net debt position and ensuring tight control over the risk profile of our contracts and our balance sheet. All these areas remain key priorities for the Group.

During the year, the Property and Residential divisions continued to grow their pipelines whilst maintaining an asset basis of £500m through the increased use of third party funding. In the Construction division, performance was underpinned by a strong fourth quarter resulting in a record order book of £5.0bn. In the Services division there were strong contributions from the Highways and Utilities businesses resulting in an order book of £5.2bn. Both the Construction and Services divisions achieved consistent operating margins. We have successfully completed the integration of the McNicholas business following its acquisition in July 2017, making us one of the largest providers in the UK utilities market with specialisms in the energy and power, telecoms and water sectors.

With the Group focusing in the future on its three leading market positions, we will be reporting on these markets; Infrastructure Services, Building and Developments & Housing, from July 2018.

Future Proofing Kier programme

In June 2018, the Group launched its Future Proofing Kier programme, focused on simplifying and streamlining the Group's operations and enabling the Group to be more responsive to client needs. The actions taken during FY19 will deliver annual profit and cash flow improvements of at least £20m in FY20, representing at least 10% of profit from operations, together with targeted proceeds of £30-50m from the disposal of non-core businesses. This programme will help the Group achieve its target of year end net cash and average net debt of c.£250m in FY21.

The principal areas of focus of the programme are:

- Greater operational efficiency;
- Improved cash generation and profitability resulting in an accelerated reduction in net debt; and
- The planned disposal of non-core businesses.

The completion this year of the Oracle ERP system roll-out now provides the opportunity to leverage our systems capability and enhance the Group's transactional processing, reporting, control and shared services functions thereby reducing costs in the business. Having completed our investment in major systems, we also expect our capital expenditure to return to normalised levels of around £30m - £35m per annum.

Our market positions

The Group has market-leading positions in the following three UK markets:

- Infrastructure Services;
- Buildings; and
- Developments & Housing.

During the year, there was significant turbulence in our markets. Following the liquidation of Carillion, we acquired a greater share of the HS2 project and of Highways England's Smart Motorways programme. As a result, over 150 employees transferred into Kier to continue the smooth delivery of services under these projects.

In Infrastructure Services, our capabilities provide us access to both capital and maintenance budgets including major UK infrastructure projects, for example Crossrail, Smart Motorways and HS2, as well as the delivery of essential every-day services, such as those provided in the highways and utilities sectors.

The Infrastructure Services market is underpinned by a number of fundamental drivers, including demographics and technology. There is cross-party support for ongoing investment to stimulate the UK economy and targeted regional economies and, consequently, significant growth is anticipated in several of the sectors in which we operate. In the highways market, we expect the new 2020-2025 Roads Investment Strategy period (RIS2) will be significantly greater than RIS1 (£17bn between 2015 – 2020) and technological changes, such as electric vehicles (EV) and connected and autonomous vehicles (CAV), will require changes to the country's road infrastructure. We are working with Highways England on its planning for these future developments, blending new technology and innovation with our market-leading delivery capabilities. In the utilities market, we have engaged with our water clients as the AMP7 regulatory review process begins. In the broader transport market, a number of large scale infrastructure projects are underway including HS2 and growth is also expected in the power generation sector in nuclear, a sector in which Kier has established capabilities.

In the Buildings market, education continues to be our largest sector, with expenditure driven by population growth and the need to invest in the existing estate. The Government has recently announced an increase in NHS funding of 3.4% p.a. and it is expected that much of this will be invested in front-line services, which we anticipate will create a pipeline of new opportunities. The Group continues to expand its private sector work in growing sectors such as bioscience and aviation. The UK's investment in aviation, recently demonstrated by the approval for expansion at Heathrow airport, will provide a major, multi-year boost, in addition to the expected strong regional airport growth. Public policy is increasingly supporting modern methods of construction (MMC), such as off-site manufacturing, and the Group has already delivered over £2bn of projects that include MMC over the past five years.

In the Developments and Housing markets, regeneration plays a significant role in the economic success of local communities. Our Property development capabilities extend across a broad range of sectors, utilising joint venture funding where possible, a mechanism which is well received by clients and efficient for Kier. The business also prides itself on the quality of its product for which there continues to be strong occupier demand.

The UK housing market has a national shortage with 300,000 homes needed every year. Kier has strong credentials in the housebuilding sector particularly the affordable end of the market with an average house selling price of c.£240,000. The joint venture with Homes England and Cross Keys Homes, launched in June 2018, provides a capital efficient model for housing associations, local authorities and the private sector to deliver affordable housing, and is a model that we expect to become more prevalent in the growing affordable housing market.

Despite significant changes in the competitor landscape during the year, our selective approach to bidding for new work, coupled with the robust economic fundamentals of the three markets in which we operate, provides a good pipeline of quality growth opportunities for the Group.

People and safety

Our people are the key to the success of our business. I would like to thank them for their hard work and commitment during the year. We have further reduced the Group accident incidence rate (AIR) to 96 (2017: 130), an improvement of 26% on 2017 and significantly below the average industry benchmark, making us one of the leading companies in the sector for safety performance.

Diversity is another key priority for the Group. We have established a number of diversity forums, such as our Balanced Business Network, LGBT+ and Allies Network and our Gender Strategy Steering Group. We are focusing on increasing the number of women working in senior roles at Kier. In addition, our Shaping Your World™ campaign, targeted at 11–15 year olds, is focused on attracting schoolchildren and the next generation of talent into careers in construction and the built environment. We now have over 350 Shaping Your World ambassadors visiting schools and, during the year, we engaged directly with over 15,000 students making them aware of career opportunities in the sector.

Dividend

The Board is recommending a full-year dividend of 69.0 pence per share (2017: 67.5 pence per share), up 2%, as cover continues to be built to 2x by FY20. Subject to shareholder approval, the final dividend of 46.0 pence per share will be paid on 3 December 2018 to shareholders on the register at close of business on 28 September 2018. As an alternative to the cash dividend, shareholders will again be offered the option to participate in a Dividend Reinvestment Plan (DRIP). The deadline for shareholders to submit their instructions to participate in the DRIP in respect of the final dividend is 5.30 p.m. (London time) on 6 November 2018.

Board changes

With the launch of the Future Proofing Kier programme, it was identified that the appointment of a Chief Operating Officer was key to Kier delivering the programme's objectives. Claudio Veritiero was appointed to the role of Chief Operating Officer on 1 August 2018. He was previously the Strategy and Corporate Development Director, having joined Kier in 2011 as the Managing Director of the Services division. Prior to joining Kier, Claudio was the Chief Operating Officer of Speedy Hire plc, having spent his early career with the investment banking business of Rothschild. In light of this appointment, Nigel Brook (Executive Director – Construction and Infrastructure Services) and Nigel Turner (Executive Director – Developments and Property Services) stood down from the Board and left the business on 1 August 2018. I would like to thank both of them for their contribution over the years and, on behalf of the Board, I wish them well for the future.

Having completed nine years on the Board, Nick Winser has decided not to offer himself for re-election at the November AGM. Nick has played an important role on the Board, in particular as the Chair of the SHE Committee. I would like to express my thanks to Nick for his support and, on behalf of the Board, wish him

well for the future. Kirsty Bashforth will take over the role of Chair of the SHE Committee with effect from the conclusion of the AGM.

Outlook

We have launched the Future Proofing Kier programme which will streamline the business thereby enabling us to deliver a more efficient service to clients, respond to changes in our markets and capitalise on growth opportunities, whilst, importantly, also accelerating the reduction of the Group's net debt position.

Our strong market-leading positions, our record £10.2bn Construction and Services order books, and our £3.5bn property development and residential pipelines, will see the Group deliver on its Vision 2020 targets. In addition, the Future Proofing Kier programme positions the Group well for an improvement in operating margins and higher cash generation, culminating in a net cash position for FY21.

Divisional Review
Property
The division undertakes property development and operates across the UK.

	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m	*Change %*
Revenue[1]	**218**	182	***+20***
Operating profit[2]	**34.0**	25.8	***+32***
Average capital[3]	**125**	113	***+11***
Return on Average Capital Employed (ROCE)	**27%**	23%	

	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m
Statutory operating profit	**33.9**	18.1

[1]Group and share of joint ventures
[2]Stated before non-underlying items (see notes 2 and 3)
[3] Equates to average month end net debt.

- **ROCE of 27% driven by our joint venture strategy**
- **Occupier demand remaining strong, particularly outside London**
- **Leveraging third party investment**
- **Development pipeline of more than £1.5bn providing 10-year visibility.**

Property revenue increased 20% to £218m (2017: £182m), generating an underlying operating profit of £34.0m (2017: £25.8m). The business, which focuses principally on non-speculative development, delivered this strong performance following significant investment post the EU Referendum vote in June 2016 when, following a short-term softening of the property market, a number of development opportunities were identified. The average capital employed of £125m supports an average asset base of c.£200m, funded principally through joint ventures. On the back of thirty-two active schemes in the year, of which fifteen were joint ventures, the business delivered a ROCE of 27%, up 4%. The division has a pipeline totaling £1.5bn across a number of sectors. Capital investment sufficient to achieve the division's Vision 2020 financial targets has been achieved and therefore the asset base is expected to remain at its current level.

Occupier sentiment remained positive across our core sectors, including industrial, office, leisure, student accommodation and there has been an increase in investor appetite particularly outside London.

The industrial sector remained buoyant with strong occupier demand and robust investor sentiment. The business disposed of three completed developments as a portfolio in December 2017, reflecting a blended yield of 4.25% and construction was completed on the forward funded Frimley site in May 2018. Further lettings were achieved in Andover and Watford with construction commencing at new sites in Basingstoke and Reading. Further sites have been secured in Chelmsford, Gravesend, Solent and Maidenhead with construction due to commence in FY19.

Within the office sector, lettings have been secured in Basingstoke, Birmingham and Hammersmith. An office scheme at York Street in Manchester was sold on a forward funded basis in February 2018. New schemes in Basingstoke and Birmingham were secured.This sector continues to benefit from the devolution of local government with greater demand for public sector office facilities in the regions. In February 2018, Kier Property was named preferred developer to deliver a new office for Durham County Council with construction by Kier Construction due to commence in early 2019.

In the leisure and retail sector, in which the majority of the schemes are pre-let, construction was completed in May 2018 on the 100% pre-let and forward funded retail scheme in Wigston. In August 2018 the forward funded leisure scheme in Walsall was completed. Construction is ongoing at the pre-let and forward funded retail and hotel scheme in Reading. A retail scheme in Durham was 100% pre-let and forward funded in June 2018 and planning has been achieved on retail schemes in Thornton Cleveleys which is currently 74% under offer. New retail schemes have been secured in Glasgow (95% pre-let) and Hemel Hempstead (40% under offer).

Good progress has been made at the Watford Health Campus, in joint venture with Watford Borough Council. The first Trade City phase was sold in December 2017 and construction has commenced on the first residential phase comprising 95 homes. In December 2017, terms were agreed for a 254-apartment

care home and planning was secured for the next residential phase comprising 408 units. It is anticipated that this joint venture will generate further development opportunities with the council over the longer term.

Further mixed-use schemes have been acquired during the year in Richmond (retail and office) and Bishop's Stortford (retail, leisure and residential).

In Solum Regeneration, the 50/50 joint venture with Network Rail, the business continues to make good progress with a selection of schemes including the construction of 78 residential units at Walthamstow with completion due in April 2019 and 115 residential units in Twickenham with marketing due to commence in Autumn 2018. Planning was submitted and achieved in Kingswood, Surrey with a subsequent land sale in December 2017. In addition, planning was granted at Guildford for a large mixed-use scheme. Planning was also secured in Redhill for 50 units with a subsequent land sale in June 2018.

In the student accommodation sector, a small number of schemes are undertaken each year in cities with large student populations. The student accommodation portfolio continues to progress with the opening of the 329-bed scheme in Newcastle and the 423-bed scheme in Southampton which will be opening in time for the 2018/19 academic year. The division currently has a portfolio of 1,016 student accommodation beds across its three schemes in Glasgow, Newcastle and Southampton.

The last remaining PFI asset, Woking Housing, was sold in June 2018 representing a discount rate of 7.25%.

Property outlook

The sector diversity, regional spread and quality of product offered by the Property division enables the business to be responsive to market developments. The division, which focuses on non-speculative developments, will continue to leverage its strong position in the market to generate investment in its future pipeline alongside joint venture partners. The division continues to extend its end market exposure to sectors that are forecast to grow, such as industrial. With strong occupier demand and the support of joint venture investors, the division has a pipeline of over £1.5bn providing good visibility for the next ten years, and is expected to continue to generate a return on capital in excess of 20% as it has done in the past three financial years.

Residential
Kier Residential, branded Kier Living, comprises mixed-tenure affordable house building and private house building.

	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m	*Change %*
Revenue[1]			
Mixed tenure	**199**	202	***-1***
Private (Kier owned land)	**175**	174	***+1***
Total	**374**	376	***0***
Operating profit[2]			
Mixed tenure	**8.4**	6.7	***+25***
Private (Kier owned land)	**17.5**	16.1	***+9***
Total	**25.9**	22.8	***+14***
Average capital[3]			
Mixed tenure	**56**	39	***+44***
Private (Kier owned land)	**120**	160	***-25***
Total	**176**	199	***-12***
Return on Average Capital Employed (ROCE)	**15%**	11%	
Land bank			
Mixed tenure	**1,517**	999	***+52***
Speculative (units)	**2,380**	2,794	***-15***
Total	**3,897**	3,793	***+3***

	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m
Statutory operating profit	**25.9**	20.6

[1]Group and share of joint ventures
[2]Stated before non-underlying items (see notes 2 and 3)
[3]Equates to average month end net debt.

- **Stable revenue at £374m with operating profit up 14% to £25.9m**
- **Homes England and Cross Keys Homes joint venture to develop c.5,400 homes over a 10-year period**
- **15% ROCE achieved, two years ahead of Vision 2020 target**
- **Completed 2,042 units and on track to deliver over 2,300 units in FY19.**

Revenues remained stable at £374m (2017: £376m). On a like-for-like basis, after adjusting for the share of joint ventures, this represents an increase of 2%. Underlying operating profit of £25.9m (2017: £22.8m), up 14%, was achieved as the business continued its focus on the affordable end of the UK housing market. The operating margin of 6.9% (2017: 6.1%) continues to improve as the land portfolio develops and the mixed tenure business matures. The business improved its ROCE to 15% (2017: 11%), some two years ahead of its Vision 2020 target. The Cross Keys joint venture, formed in March 2017, is expected to return £12m in a cash dividend to the Group in September 2018. The rebalancing of the legacy Kier land bank continues. The division completed 749 private units and 1,293 mixed tenure units bringing the total to 2,042. The division continues to perform well and now has the required asset base to deliver its Vision 2020 financial targets.

The under-supply of housing continues to be the main driver of demand. The private sales market remained strong with the sales rates higher in the second half and an annualised rate of approximately 0.7 units per week per trading site. Help to Buy continued to attract buyers, accounting for c.50% of sales this year. With the demand for affordable housing set to increase, Kier is well-placed given its average price point of c.£240,000.

The division continues to develop its portfolio, particularly mixed tenure opportunities, through its joint venture strategy. Such joint ventures have been established over the last two years with Together Housing Group, Cross Keys Homes and recently Homes England. This strategy benefits the Group by facilitating increased housebuilding through capital efficient structures and helps maintain a balanced portfolio of private, mixed tenure and affordable housing activity. The Kier Cross Keys Homes joint venture, formed in March 2017, has performed well in the year and an additional 357 plots of land were purchased during this year bringing the total number of plots in this joint venture to 1,270.

The Homes England joint venture, announced in May 2018 and which includes a minority investment from Cross Keys Homes, enables Kier Living to accelerate development of its residential land bank through a

capital efficient model and increase the scale of its mixed tenure house building activities by c.500 units per annum from 2020.

In May 2018, Kier Living invested £3m in upgrading its front-end customer relations software platform to help improve quality control and manage communications with its customers pre and post completion. Innovation continues to play an increasing role in the housebuilding sector and Kier Living is working with its supply chain to develop a digital smart living platform and increase exposure to modern methods of construction to help speed up build and mitigate any potential Brexit impact.

Residential outlook

The UK demand for affordably priced newly built housing remains strong, reinforced by a competitive mortgage market and the Help to Buy incentive. The regional profile of the business outside of London provides a stable environment for private and mixed tenure affordable housebuilding with demand exceeding supply. We have a strong pipeline of £2bn that provides a well-secured position through to FY22. The business continues to perform well and has achieved its Vision 2020 target of 15% ROCE two years early.

Construction
The Construction division comprises UK building, UK infrastructure and international construction.

	Year ended 30 June 2018 £m	Year ended 30 June 2017[3] £m	*Change %*	*Like-for-like change[4] %*
Revenue[1]	**2,053**	2,019	***+2***	***0***
Operating profit[2]	**41.9**	39.8	***+5***	
Operating margin[2]	**2.0%**	2.0%		

	30 June 2018	30 June 2017
Order book (secure and probable)	**£5.0bn**	£4.2bn

	Year ended 30 June 2018 £m	Year ended 30 June 2017[3] £m
Statutory operating profit/(loss)	**41.5**	(50.1)

[1]Group and share of joint ventures
[2]Stated before non-underlying items (see notes 2 and 3)
[3]Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1)
[4] Represents annual growth on an organic basis, excluding revenue from the acquired McNicholas business.

- **Revenue stable at more than £2.0bn with operating profit up 5%**
- **Stable operating margin of 2.0%**
- **Contract awards in the year of £2.7bn**
- **Record order book of £5.0bn.**

Revenue was up 2% to £2,053m (2017: £2,019m) with an underlying operating profit increase of 5% to £41.9m (2017: £39.8m). These results reflect strong revenue growth during the fourth quarter following a decline earlier in the year as a result of slower site starts and adverse weather. The fourth quarter performance resulted in a strong working capital improvement in the second half of the year which mitigated the effect of ongoing negotiations on a health sector project in the south east of England. Underlying operating margins were maintained at 2.0% (2017: 2.0%) after incurring the final exit costs relating to Hong Kong and the Caribbean. The current order book of £5.0bn is at a record level for secured and probable work and benefitted from the inclusion of the additional share of the Smart Motorway and HS2 joint ventures, following the liquidation of Carillion. The order book represents more than 90% of forecast revenue for FY19, on increasing volumes.

UK building
The UK regional building business had a good year. The business has experienced an unprecedented volume of contract awards over the last two years, particularly in its core markets and on existing frameworks in the education and health sectors.

The trend for public, and increasingly, private sector clients adopting construction frameworks as the preferred method to procure new work continues, providing long-term visibility of future work. Over 70% of our new work is procured through frameworks. The business secured places on ten construction frameworks in the year, providing access to over £3bn of opportunities. Key framework awards in the period included:

- the ten-year Defence Infrastructure Organisation’s Clyde Commercial Framework (worth up to £750m);
- the four-year Designed for Life Wales Healthcare National & Regional Frameworks (worth up to £500m);
- the four-year Strathclyde University Framework (worth up to £250m); and
- the Department for Work and Pensions Estates Contractor Framework (worth up to £150m).

Education remains a leading sector for the division generating more than £700m revenue per annum of which the majority is delivered through framework arrangements with the Education Skills Funding Agency (ESFA), local authorities, universities and national framework providers such as Scape and the LHC. In the year, positions were secured on ESFA funded schemes which will create over 36,000 pupil places. In the tertiary education sector, universities are developing their accommodation and estate plans which provide new long-term opportunities for Kier.

In the health sector, c.£200m of awards were achieved from the Procure22 framework and more than £1bn of healthcare opportunities are in the pipeline, underpinned further by the recent Government announcement of additional NHS funding. We continue to progress a range of projects in the sector, including one health facility contract, the scope of which has expanded considerably at the request of the client since the original contract was signed. We are in constructive dialogue with that client about the total value of the project.

The business has continued to diversify its presence from the health and education sectors to related complementary sectors such as bioscience and student accommodation. In the industrial sector, Kier is seeing considerable growth with a number of manufacturing opportunities from non-UK based clients looking for new facilities in the Midlands. Other key sectors include defence with the £35m award at MoD Lyneham and a place secured on the 10-year £750m MoD Clyde Commercial Framework in support of the MoD's future submarine programmes. Further opportunities will be available from the MoD's future defence estate development requirements and planned capital investment programme. In addition, we continue to support Ministry of Justice projects.

In aviation, new opportunities arising from the Heathrow expansion project and other regional airport growth are expected.

Infrastructure
Following the publication of the UK National Infrastructure Pipeline in August 2017, key sectors targeted for growth are transport and power and energy where the Group has established credentials and strong relationships. Our strategy is to focus on projects that deliver sustainable margins and positive cash flow as well as an appropriate risk profile.

The business maintained its position as the lead supplier to Highways England. Following Carillion's liquidation, its work on the M6 junctions 16 – 19 has transferred to Kier, complementing other Smart Motorway work on the M6 junctions 13 – 15, the M20 and M23. A rationalisation of suppliers on the Smart Motorways programme is underway and Kier is well positioned to continue to be involved.

In transport, the £43m A13 contract commenced and work continues on HS2 where pricing models have been submitted to Government. Works are on schedule to complete during this financial year the Kier Farringdon Crossrail project, despite the broader Crossrail delays. The Mersey Gateway project, which has been challenging, was completed in October 2017 when the bridge opened to traffic. The final landscaping and post completion works are due to complete in 2019 as scheduled. Final account discussions continue whilst a number of claims against third parties are being progressed.

Following the successful integration of McNicholas and utilising our combined rail capabilities, numerous schemes in the power and signalling arena resulting from CP6 are being reviewed whilst delivery of existing Network Rail CP5 contracts are ongoing. Work has commenced on the £120m Luton DART link joint venture.

In the power and energy markets, work is ongoing at Hinkley Point C with additional projects coming on stream. Key targets in this sector include future opportunities in Sizewell C and Wylfa.

International
In the Middle East, operations continue to focus on the United Arab Emirates (UAE) market. A selective approach to bidding has been adopted focusing on UK Export Finance (UKEF) opportunities. In the year, the five-star Saadiyat Rotana hotel has opened and infrastructure projects for Meraas and Nshama were completed. Ongoing projects include our two Nshama residential projects, the Bluewaters residential and infrastructure work and the Dubai Arena and the Dubai Harbour infrastructure projects.

Construction outlook
The business delivered a consistent 2% operating margin, has a record order book of £5.0bn and has more than 90% of forecast revenue secured for FY19. The business is performing well, driven by its regional office presence, its position on frameworks, growth in infrastructure investment, split of private and public sector clients and sector mix. Frameworks continue to be the preferred method for procurement by the public sector and Kier has a strong pipeline of framework bid opportunities coming to market over the next six months. With established health sector credentials, the Group is well positioned to benefit from the impact of the additional Government investment in the NHS. The infrastructure business provides good medium-term prospects with a solid track record and strong client relationships in its key sectors, for example transport and nuclear in which new opportunities will arise. Increased car usage is seeing new Smart Motorway opportunities coming on stream. The Smart Motorway Programme has significant investment planned over the next five years with the next procurement tranche commencing in late 2018.

Services
The Services division comprises infrastructure services (highways and utilities), property services (housing, facilities management and related services) and environmental services.

	Year ended 30 June 2018 £m	Year ended 30 June 2017 £m	*Change %*	*Like-for-like change[3] %*
Revenue[1]	**1,849**	1,688	***+10***	*-1*
Operating profit[2]	**93.0**	87.0	***+7***	
Operating margin[2]	**5.0%**	5.2%		

	30 June 2018	30 June 2017
Order book (secure and probable)	**£5.2bn**	£4.7bn

	Year ended 30 June 2018 £m	Year end 30 June 2017 £m
Statutory operating profit	**67.9**	54.5

[1]Group and share of joint ventures
[2]Stated before non-underlying items (see notes 2 and 3)
[3] Represents annual growth on an organic basis, excluding revenue from the acquired McNicholas business.

- **Revenue growth of 10% to £1.9bn**
- **Robust operating margin of 5%**
- **Award of Highways England Areas 3 and 9 extensions worth more than £250m per annum**
- **Order book of £5.2bn.**

Services revenue increased 10% to £1,849m (2017: £1,688m), underpinned by the highways and utilities businesses and following the acquisition of McNicholas which produced a good first full-year contribution in line with expectations. Revenues on an organic basis were flat with volumes in our environmental business continuing to fall as contracts conclude. Underlying operating profit was £93.0m (2017: £87.0m), up 7%. A robust underlying operating margin of 5%, in line with Vision 2020 targets, reflects the stable and consistent performance of the business. The Services division had an order book at 30 June 2018 of £5.2bn (2017: £4.7bn), benefiting from the Highways England contract extensions for Areas 3 and 9. More than 90% of forecast revenue for FY19 is secured.

The division's capabilities principally relate to the provision of infrastructure services in the highways and utilities sectors, which, together with the Group's capabilities in construction, place Kier as one of the UK's leading infrastructure businesses with annual revenue of c.£2.0bn.

Infrastructure services - Highways
Revenue in highways was in line with expectations. In strategic roads, Highways England is working in collaboration with the supply chain, including Kier, to build upon its current ways of working. Highways England is supplementing its current asset delivery model with a new £8bn framework and will be presenting a number of delivery integration partnership contracts which will provide significant opportunity for the delivery of capital schemes over the next six years. Post-year end, two three-year extensions to 2021 and 2022 respectively worth over £250m per annum were secured on Highways England Areas 3 and 9 with six month extensions secured more recently on Areas 6 and 8.

In local authority roads, the Shropshire Council highways contract was successfully mobilised in June 2018. Funding pressures continue to lead to a wide variety of client delivery and procurement solutions being explored covering both insourcing and outsourcing. The devolution of funding and decision-making, both locally and regionally, is now starting to gather pace with the establishment of Regional Transport Bodies, Mayoral Authorities and increased collaboration between authorities. With the Group's regional scope and expertise, it is expected that this will provide further growth opportunities.

In Australia, our DM Roads joint venture was successful in being awarded two new contracts; the five-year £180m Perth Metropolitan Network Contract and the five-year £30m Goldfields-Esperance Rural Network Contract. These contracts reflect the increasing demand for new and upgraded roads in the region in light of population growth.

Infrastructure services – Utilities
Through the acquisition of McNicholas and its subsequent successful integration, Kier has become a top three provider to the UK utilities sector, covering all regions of the UK. The business focuses on three sectors; water, energy and telecommunications. In addition, the provision of multi-utility survey and design expertise is enabling Kier to provide new services in complex environments such as aviation, rail and

transport. Most recently, we have secured enabling works contracts at London City Airport as a part of the £480m City Airport Development Programme where both Kier Utilities and Kier Construction are working.

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

In the power sector, the Group has secured an initial three-year contract with Western Power Distribution to the value of around £30m per year, covering areas in the West and East Midlands and in Northern Ireland, the five-year £35m SGN natural gas eight towns distribution framework has recently been mobilised. The new regulatory period commences in 2021 and early engagement with prospective clients has commenced.

In telecommunications, the market remains buoyant with a number of new alternative fibre providers coming into the market on the back of Government incentives and it is anticipated that further work for Kier will arise. A three-year £100m contract was secured with Gigaclear to build high-speed fibre networks in Devon and Somerset. Kier maintains its position as the single biggest supplier to Virgin Media for both consumer and business connections, network build and maintenance activities.

Infrastructure services outlook
The outlook for our highways maintenance business remains positive with Highways England funding secured through to the end of the £17bn Roads Investment Strategy 1 (RIS1) in 2020 and predicted future funding levels expected to increase. The outlook remains positive for Australia with our key clients in Western Australia and New South Wales increasing spending to meet the predicted population growth.

The integration of McNicholas has enhanced the Group's breadth of capability in the utilities market and it is expected that new opportunities will arise from the developments in energy generation and storage, particularly following the introduction of EVs and smart infrastructure. The telecommunications market is also growing.

Property services - Housing maintenance
The housing maintenance sector continues to undergo significant change following budgetary challenges faced by local authorities and the impact of Grenfell. Consequently, the business has extended its mix of clients with increasing focus on housing associations and private sector clients. This change has resulted in a number of new awards and extensions including three new contracts replacing incumbent suppliers. With an increased focus on fire risk assessments, the business has strengthened its capability in this field.

On 29 June 2018 the disposal of Wheldon Contracts and Services Limited for a total consideration of up to £0.4m. It was acquired in July 2017 as part of the McNicholas acquisition.

Property services – Facilities Management
The Property services team continues to maintain its profile in the public and private sectors. During the year, new contracts were mobilised with the British Red Cross, the Home Office, Moorland and High Peak Councils and The Office Group. On 17 September 2018, the Group exchanged contracts for the sale of its pension administration business, acquired with the Mouchel acquisition. Completion is expected in the first half of this financial year for a total consideration of up to £3.5 million in cash.

Property Services outlook
With continuing pressure on public sector budgets, the merger of housing associations and a greater focus on fire risk compliance, challenges as well as opportunities remain in this sector. The growth of the private rental sector is providing new opportunities for the housing maintenance business.

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

Services outlook
The Services division, which accounts for approximately 50% of the Group's profits, is performing well. Having secured more than £1.9bn of new work in the year, the Services division now has an order book of £5.2bn providing strong, long-term visibility of our workload and more than 90% of its forecast revenue for FY19.

The market for UK infrastructure construction and maintenance is forecast to grow at 6% per annum until 2020 underpinned by fundamental drivers and political consensus for the continuing investment to stimulate the UK economy and targeted regional economies.

It is also anticipated in Highways that expenditure in the new 2020-2025 RIS2 will be greater than RIS1.The utilities market provides opportunities to grow in the run-up to each new regulatory period. We remain confident that we are well positioned to take advantage of the next round of highways, water and rail regulatory review periods.

FINANCIAL REVIEW

Summary of underlying results

The Group performance for the year ended 30 June 2018 was good and in line with our expectations, with on or above target returns being reported across the operating divisions. Group revenue for the year, including the share of joint ventures, increased 5% to £4.5bn (2017: £4.3bn) including the McNicholas business which was acquired in July 2017. On an organic basis revenue was consistent year-on-year.

The Group's underlying operating profit for the year was £160m (2017: £146m) an increase of 10%. Central costs increased 17% to £34.8m (2017: £29.8m) reflecting the completion of shared service centre support costs associated with the final implementation of the Oracle ERP implementation and costs relating to the acquisition and integration of McNicholas.

Statutory operating profit increased from £8m to £134m with no non-underlying charges this year as previously guided.

Net financing costs

Underlying net financing costs totalled £23.1m (2017: £19.5m), driven by the increase in average net debt and marginally higher borrowing costs.

Operating profit

Underlying profit before tax of £136.9m (2017: £126.1m) increased by 9%. Return on capital employed (ROCE) of 27% (2017: 23%) within the Property division was materially above our target of 15%, supported by a broadly stable capital employed of £125m (2017: £113m) and by our greater use of capital efficient joint ventures.

ROCE within our Residential division increased to 15% (2017: 11%), achieving its Vision 2020 target two years ahead of plan. Following the Homes England joint venture, capital employed decreased to £176m (2017: £199m), in line with the strategy to deliver more homes in joint venture with our strategic partners.

Construction margins of 2.0% (2017: 2.0%) are in line with the prior year. Underlying profitability included a £7m charge in respect of the final cash settlements in Hong Kong and the impact of hurricane related delays on the final project in the Caribbean, as reported at the half year.

Services margins of 5.0% (2017: 5.2%) remained stable, underpinned by the highways and utilities businesses and the acquired McNicholas business.

A number of items either relating to costs previously taken through non-underlying or similar in nature to those previously taken through non-underlying, have been taken through underlying in the current year. This is due to none being of sufficient size or incidence to warrant separate disclosure and the aggregate impact being immaterial. These items include further costs to close out Hong Kong and the Caribbean (£7m) and integration costs (£2m), offset by negative goodwill and deemed profit on disposal (£3m), resulting from acquiring the remaining 50% of a design and facilities management business (KBESL), and releases in respect of a small number of immaterial provisions (£4m).

Non-underlying charges

Non-underlying charges in the year are in respect of non-cash amortisation of acquired contract rights of £25.6m and non-cash interest charges of £5.1m. The amortisation charges primarily relate to the acquisitions of May Gurney in 2013, Mouchel in 2015 and McNicholas in 2017. The results of the mining operation are again disclosed in non-underlying as the Group continues to wind the business down.

Taxation

The underlying tax charge for the year of £23.3m (2017: £21.9m) represents an effective corporation tax rate of 17% (2017: 17.2%) and is impacted by inclusion of joint venture tax on the joint venture line.

Earnings per share

The underlying earnings per share from continuing operations increased 9% to 116.7p (2017: 106.8p). The average number of shares in issue was 97.2m (2017: 96.5m) with the increase driven by the vesting of share schemes.

Cash flow

Operating cash inflows before the movement in working capital and including dividends from joint ventures were £171m (2017: £164m) and represents cash conversion of 107% of operating profit. Working capital before investment in Property and Residential generated an outflow of £18m (2017: inflow £4m). This

included £20m working capital outflow in respect of McNicholas. As anticipated in the second half of the year, the Construction division generated the normal seasonal working capital inflows.

Following the acquisition of McNicholas, cash consideration, acquisition costs and acquired net debt totalled £26m, with a further £20m invested in working capital subsequently. While no non-underlying items were recognised through the income statement in 2018, except amortisation and finance costs, non-underlying cash outflows of £32m (2017: £67m inflow) related to provisions made in prior years. Capital expenditure for the year of £67m included £23m in respect of the Group's Oracle ERP systems, the roll out of which concluded in May 2018.

Cash interest in the year of £21m (2017: £17m) increased, reflecting higher levels of average net debt and marginally higher borrowing costs. Cash taxation of £10m (2017: £4m) reflects the Group's utilisation of historic trading losses.

Cash dividends of £68m were paid in November 2017 and May 2018, with no scrip dividend being offered as alternative.

Supply chain finance
The Group offers its supply chain in the Construction and open market Residential business the opportunity to participate in the Kier Early Payment Scheme (KEPS). Suppliers may choose to access payment from a group of banks after 21 days rather than our normal 60 day payment terms. Kier then recompenses the participating banks directly after c.90 days. The balance owed on this facility is included within trade creditors.

This scheme is offered to our supply chain, who are free to choose whether they wish to participate in the scheme, as well as the timing and amount of any funds they wish to draw down. The 30 June 2018 balance of £185m represents the peak utilisation and this level is lower when compared to £197m at 30 June 2017. Utilisation of the facility was lower in the second half of 2018 when compared to the same period in 2017.

Payment Practices Reporting
Following the recent introduction of Government regulated payment practices reporting, we published data showing the Group's average payment terms (excluding McNicholas) were 57 days at the latest reporting date in July 2018. This figure is based on the volume of transactions rather than the value of transactions and is impacted by retentions and Kier Early Payment System (KEPS) bank payment terms.

Joint ventures
Over the last three years the Group has materially invested in the Property and Residential businesses to drive increased returns. To continue to improve returns and mitigate risk to shareholder equity, the Group has pursued a strategy of investing with partners and debt providers to increase the breadth of the portfolio and reduce the overall volatility of earnings.

The Group's clients and partners prefer this structure while, for Kier, the joint venture model is the Group's preferred, and capital efficient, method of accessing the property market. Twenty-nine of the Property division's forty-eight projects currently in development and a further nine trading joint ventures within the Residential division utilise this structure.

During the year, the Group entered into a trading joint venture with Cross Keys Homes and Homes England. Kier contributed £26.7m of land and a further £8.9m of cash while Homes England contributed material debt and equity and Cross Keys Homes contributed cash equity. Further ring-fenced, non-recourse, debt has been agreed with banking partners to purchase further sites from the joint venture members and the open market with the intent to deliver c.500 affordable houses per annum.

The Group's interests in joint ventures are accounted for using the equity method. Profit arising from the trading of joint ventures is reflected through the Group's share of post-tax results of joint ventures or profit on disposal of joint ventures. Cash flows arising from the sale of joint ventures are reflected through dividends received from joint ventures or proceeds from sale of joint ventures. This is dictated by the purchaser's preference to acquire either the joint venture entity or the underlying asset.

Recourse debt
The Group seeks to operate joint ventures with non-recourse debt secured on an asset by asset basis. Initially, prior to the model becoming proven with the asset finance market, the Group provided guarantees to debt providers. As at 30 June 2018 these guarantees totalled £72.7m with c.50% forecast to expire by December 2018.

Net debt
The Group's net debt balance at year end of £186m (2017: £110m) includes the £26m cost and acquired debt of McNicholas. We are targeting a year end net cash position and average net debt of c.£250m in FY21.

As anticipated, the timing of investments in Property and Residential assets in the year, the acquisition of McNicholas and the creation of the Homes England joint venture, led to an increase in average net debt to c.£375m (2017: £320m). In addition, weak construction volumes in the first half followed by a strong recovery late in the second half of FY18 has also negatively impacted average net debt. Management recognise the need to address this and a net debt improvement plan is underway, driven by expected overall free cash flows of £20-£40m p.a. and the additional benefits of the Future Proofing Kier programme of at least £20m in FY20. The Group's net debt position is underpinned by our Property and Residential assets which are held at cost of c.£500m. Average capital employed in these divisions of £301m (2017: £312m) has now reached the required level to achieve our Vision 2020 return on capital targets and therefore no new cash investment is expected.

In July 2017, the Group's core revolving credit facility was extended for two additional years to July 2022 and increased from £400m to £760m. All covenants in respect of debt facilities have been tested as at 30 June 2018 and indicate an adequate level of headroom.

Order book
The combined Construction and Services order book of £10.2bn (2017: £8.9bn) grew 15%, including the McNicholas order book. This provides strong visibility with over 90% of revenues forecast for FY19.

Retirement benefit obligation
Kier operates a number of defined benefit pension schemes. At the year end, the reported surplus, which is the difference between the aggregate value of the scheme's assets and the present value of their future liabilities, was £7.9m (2017: deficit £84.6m) before accounting for deferred tax.

Included in the net balance above, £7.4m relates to McNicholas pension scheme (£10.9m as at acquisition date).

Financial Reporting Standards
(i) Impact of IFRS 9 Financial Instruments
The main areas of the new standard and their expected impact are set out below:
- Hedge accounting – this does not impact on the Group's accounting for its derivatives;
- Impairment of financial assets – an "expected credit losses model" has been introduced whereby expected losses as well as incurred losses are provided for; and
- Classification and measurement of financial assets – this will impact the Group's previous treatment of the costs of refinancing its borrowing facilities and may also impact on the measurement of certain financial assets.

The Group's work is ongoing in this area, however the net impact of the above is not expected to be material.

(ii) Impact of IFRS 15 Revenue from Contracts and Customers
The area of the business most impacted by IFRS 15 is our Construction business, where a detailed contract by contract assessment has been carried out. There is minimal impact in our Property, Residential and Services businesses. The main areas where the new standard will give rise to an adjustment on adoption are as follows:
- Move to cost as a measure of progress: previously the Group used an output measure of progress, however we will move to an input measure of progress as this better reflects the pattern of transfer of control to the customer;
- Derecognition of certain variable revenue items in determining forecast project outcomes: IFRS 15 introduces a requirement for recognition of variable consideration (for example pain/gain shares and milestone payments) that is "highly probable not to reverse". We have therefore reviewed our construction contracts and concluded that recognition of some of these items will occur later in the projects; and
- Third party claims: Following the withdrawal of IAS 11, Construction Contracts, we will need to comply with the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, when determining if we able to recognise certain third party claims (such as insurance recoveries). These claims fell under the guidance of IAS 11 but they are not covered by similar provisions in IFRS 15. The requirements of IAS 37 are considerably more stringent than IAS 11, requiring recovery to be virtually certain before an asset can be recognised. These claims will therefore need to be de-recognised and accounted for in future periods, when the uncertainty over their recovery has been removed.

While our work over the impact of IFRS 15 is ongoing, the estimated combined impact of the above adjustments is expected to be a charge to opening reserves at 1 July 2018 of approximately £20m.

Restatement of the prior year

The prior year results have been restated to include the disclosure of the non-underlying profit on disposal of Mouchel Consulting and associated tax in discontinued operations. Underlying results and total statutory profit are unaffected. In addition, the prior year cash flow statement has been restated to show the cash flows arising from the disposals of Mouchel Consulting and Biogen in investing activities rather than operating activities.

Dividend

The Board is recommending a full-year dividend of 69.0 pence per share (2017: 67.5 pence per share), up 2% as cover continues to be built to 2x by FY20. Subject to shareholder approval, the final dividend of 46.0 pence per share will be paid on 3 December 2018 to shareholders on the register at close of business on 28 September 2018. As an alternative to the cash dividend, shareholders will again be offered the option to participate in a Dividend Reinvestment Plan (DRIP). The deadline for shareholders to submit their instructions to participate in the DRIP in respect of the final dividend is 5.30 p.m. (London time) on 6 November 2018. The Board supports a progressive dividend policy, targeting 2x dividend cover by FY20.

- E N D S -

Cautionary statement

This announcement does not constitute an offer of securities by the Company. Nothing in this announcement is intended to be, or intended to be construed as, a profit forecast or a guide as to the performance, financial or otherwise, of the Company or the Group whether in the current or any future financial year. This announcement may include statements that are, or may be deemed to be, ‘‘forward-looking statements’’. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms ‘‘believes’’, ‘‘estimates’’, ‘‘anticipates’’, ‘‘expects’’, ‘‘intends’’, ‘‘plans’’, ‘‘target’’, ‘‘aim’’, ‘‘may’’, ‘‘will’’, ‘‘would’’, ‘‘could’’ or ‘‘should’’ or, in each case, their negative or other variations or comparable terminology. They may appear in a number of places throughout this announcement and include statements regarding the intentions, beliefs or current expectations of the directors, the Company or the Group concerning, amongst other things, the operating results, financial condition, prospects, growth, strategies and dividend policy of the Group or the industry in which it operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Company’s ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group’s actual operating results, financial condition, dividend policy or the development of the industry in which it operates may differ materially from the impression created by the forward-looking statements contained in this announcement. In addition, even if the operating results, financial condition and dividend policy of the Group, or the development of the industry in which it operates, are consistent with the forward-looking statements contained in this announcement, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to, general economic and business conditions, industry trends, competition, changes in government and other regulation, changes in political and economic stability and changes in business strategy or development plans and other risks. You are advised to read the section headed ‘‘Principal risks and uncertainties’’ in the Company’s Annual Report and Accounts for the year ended 30 June 2017 for a further discussion of the factors that could affect the Group’s future performance and the industry in which it operates. Other than in accordance with its legal or regulatory obligations, the Company does not accept any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Consolidated income statement

For the year ended 30 June 2018

Continuing operations	Notes	2018 Underlying Items[1] £m	2018 Non-underlying items (note 3) £m	2018 Total £m	2017[2] Underlying Items[1] £m	2017[2] Non-underlying items (note 3) £m	2017[2] Total £m
Revenue[3]							
Group and share of joint ventures	2	**4,493.3**	**19.5**	**4,512.8**	4,265.2	17.1	4,282.3
Less share of joint ventures	2	**(273.2)**	**-**	**(273.2)**	(153.5)	-	(153.5)
Group revenue		**4,220.1**	**19.5**	**4,239.6**	4,111.7	17.1	4,128.8
Cost of sales		**(3,818.2)**	**(19.5)**	**(3,837.7)**	(3,728.3)	(111.8)	(3,840.1)
Gross profit		**401.9**	**-**	**401.9**	383.4	(94.7)	288.7
Administrative expenses		**(288.1)**	**(25.6)**	**(313.7)**	(268.2)	(33.7)	(301.9)
Share of post-tax results of joint ventures		**42.7**	**-**	**42.7**	25.0	-	25.0
Profit/(loss) on disposal of joint ventures and subsidiaries		**3.5**	**-**	**3.5**	5.4	(9.0)	(3.6)
Profit/(loss) from operations	2	**160.0**	**(25.6)**	**134.4**	145.6	(137.4)	8.2
Finance income		**0.9**	**-**	**0.9**	1.8	-	1.8
Finance costs		**(24.0)**	**(5.1)**	**(29.1)**	(21.3)	(2.9)	(24.2)
Profit/(loss) before tax	2	**136.9**	**(30.7)**	**106.2**	126.1	(140.3)	(14.2)
Taxation	4a	**(23.3)**	**5.6**	**(17.7)**	(21.9)	10.9	(11.0)
Profit/(loss) for the year from continuing operations		**113.6**	**(25.1)**	**88.5**	104.2	(129.4)	(25.2)
Discontinued operations							
(Loss)/profit for the year from discontinued operations (attributable to equity holders of the parent)		**(1.0)**	**-**	**(1.0)**	(4.1)	41.1	37.0
Profit/(loss) for the year		**112.6**	**(25.1)**	**87.5**	100.1	(88.3)	11.8
Attributable to:							
Owners of the parent		**112.4**	**(25.1)**	**87.3**	99.0	(88.3)	10.7
Non-controlling interests		**0.2**	**-**	**0.2**	1.1	-	1.1
		112.6	**(25.1)**	**87.5**	100.1	(88.3)	11.8
Earnings per share							
Basic earnings/(loss) per share							
From continuing operations	6	**116.7p**	**(25.9)p**	**90.8p**	106.8p	(134.0)p	(27.2)p
From discontinued operations	6	**(1.0)p**	**-**	**(1.0)p**	(4.2)p	42.5p	38.3p
Total		**115.7p**	**(25.9)p**	**89.8p**	102.6p	(91.5)p	11.1p
Diluted earnings/(loss) per share							
From continuing operations	6	**115.4p**	**(25.6)p**	**89.8p**	106.8p	(134.0)p	(27.2)p
From discontinued operations	6	**(1.0)p**	**-**	**(1.0)p**	(4.2)p	42.5p	38.3p
Total		**114.4p**	**(25.6)p**	**88.8p**	102.6p	(91.5)p	11.1p

[1] Stated before non-underlying items (see note 3)

[2] Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1)

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

Consolidated statement of comprehensive income

For the year ended 30 June 2018

	Notes	2018 £m	2017[1] £m
Profit for the year		**87.5**	11.8
Items that may be reclassified subsequently to the income statement			
Share of joint venture fair value movements on cash flow hedging instruments		**0.4**	(2.2)
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments	4c	**(0.1)**	0.4
Share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement[2]		**2.3**	-
Deferred tax on share of joint venture fair value movements on cash flow hedging instruments recycled to the income statement[2]		**(0.4)**	-
Fair value (loss)/gain on cash flow hedging instruments		**(3.4)**	1.6
Fair value movements on cash flow hedging instruments recycled to the income statement		**1.6**	(4.2)
Deferred tax on fair value movements on cash flow hedging instruments	4c	**0.3**	0.4
Foreign exchange gains on long-term funding of foreign operations		**(0.2)**	1.7
Foreign exchange translation differences		**(0.3)**	1.1
Foreign exchange movements recycled to income statement[3]		**(0.9)**	(3.7)
Total items that may be reclassified subsequently to the income statement		**(0.7)**	(4.9)
Items that will not be reclassified to the income statement			
Re-measurement of defined benefit pension schemes		**79.8**	(29.3)
Deferred tax (charge)/credit on actuarial gains/(losses) on defined benefit pension schemes	4c	**(13.6)**	2.1
Total items that will not be reclassified to the income statement		**66.2**	(27.2)
Other comprehensive income/(loss) for the year		**65.5**	(32.1)
Total comprehensive income/(loss) for the year		**153.0**	(20.3)
Attributable to:			
Equity holders of the parent		**152.8**	(21.4)
Non-controlling interests - continuing operations		**0.2**	1.1
		153.0	(20.3)

Total comprehensive income/(loss) attributable to equity shareholders arises from:		
Continuing operations	**153.8**	(58.4)
Discontinued operations	**(1.0)**	37.0
	152.8	(21.4)

[1] Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1)

[2] Amounts previously booked in the cash flow hedge reserve, arising from the fair value movements on cash flow hedging instruments have been recycled to the income statement following the sale of the Group's interest in Evolution (Woking) Holdings Limited

[3] Amounts previously booked in the translation reserve, arising from retranslation of the results and balance sheet of the Group's Hong Kong and Middle East operations have been recycled to the income statement following the closure of those operations.

Consolidated statement of changes in equity

For the year ended 30 June 2018

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	Merger reserve £m	Equity attributable to owners of the parent £m	Non-controlling interests £m	Total equity £m
At 30 June 2016	1.0	418.0	2.7	13.5	(1.7)	5.6	134.8	573.9	2.2	576.1
Profit for year	-	-	-	10.7	-	-	-	10.7	1.1	11.8
Other comprehensive loss	-	-	-	(27.2)	(4.0)	(0.9)	-	(32.1)	-	(32.1)
Dividends paid	-	-	-	(63.0)	-	-	-	(63.0)	(0.3)	(63.3)
Issue of own shares	-	16.8	-	-	-	-	-	16.8	-	16.8
Purchase of own shares	-	-	-	(0.6)	-	-	-	(0.6)	-	(0.6)
Share-based payments	-	-	-	2.7	-	-	-	2.7	-	2.7
At 30 June 2017	**1.0**	**434.8**	**2.7**	**(63.9)**	**(5.7)**	**4.7**	**134.8**	**508.4**	**3.0**	**511.4**
Profit for year	-	-	-	87.3	-	-	-	**87.3**	0.2	**87.5**
Other comprehensive income	-	-	-	66.2	0.7	(1.4)	-	**65.5**	-	**65.5**
Dividends paid	-	-	-	(66.1)	-	-	-	**(66.1)**	(1.5)	**(67.6)**
Issue of own shares	-	0.2	-	-	-	-	-	**0.2**	-	**0.2**
Purchase of own shares	-	-	-	(1.3)	-	-	-	**(1.3)**	-	**(1.3)**
Share-based payments	-	-	-	5.4	-	-	-	**5.4**	-	**5.4**
At 30 June 2018	**1.0**	**435.0**	**2.7**	**27.6**	**(5.0)**	**3.3**	**134.8**	**599.4**	**1.7**	**601.1**

The numbers in the table above are shown net of tax as applicable.

Consolidated balance sheet

At 30 June 2018

	Notes	2018 £m	2017[1] £m
Non-current assets			
Intangible assets		**862.2**	802.8
Property, plant and equipment		**91.6**	90.4
Investment in and loans to joint ventures		**226.1**	184.4
Deferred tax assets		**-**	11.6
Trade and other receivables		**49.2**	55.3
Retirement benefit assets	7	**39.5**	4.6
Non-current assets		**1,268.6**	1,149.1
Current assets			
Inventories		**575.0**	593.9
Trade and other receivables		**603.0**	514.0
Corporation tax receivable		**15.4**	0.9
Other financial assets		**15.2**	18.9
Cash and cash equivalents	9	**330.9**	499.8
Current assets		**1,539.5**	1,627.5
Assets held for sale as part of a disposal group		**1.3**	-
Total assets		**2,809.4**	2,776.6
Current liabilities			
Borrowings	9	**(12.0)**	(50.0)
Finance lease obligations		**(4.0)**	(9.1)
Trade and other payables		**(1,526.8)**	(1,433.7)
Provisions		**(15.4)**	(19.0)
Current liabilities		**(1,558.2)**	(1,511.8)
Liabilities held for sale as part of a disposal group		**(3.4)**	-
Non-current liabilities			
Borrowings	9	**(524.9)**	(581.8)
Finance lease obligations		**(3.1)**	(5.2)
Other financial liabilities		**-**	(0.3)
Trade and other payables		**(24.2)**	(16.6)
Retirement benefit obligations	7	**(31.6)**	(89.2)
Provisions		**(52.1)**	(60.3)
Deferred tax liability		**(10.8)**	-
Non-current liabilities		**(646.7)**	(753.4)
Total liabilities		**(2,208.3)**	(2,265.2)
Net assets	2	**601.1**	511.4
Equity			
Share capital		**1.0**	1.0
Share premium		**435.0**	434.8
Capital redemption reserve		**2.7**	2.7
Retained earnings		**27.6**	(63.9)
Cash flow hedge reserve		**(5.0)**	(5.7)
Translation reserve		**3.3**	4.7
Merger reserve		**134.8**	134.8
Equity attributable to owners of the parent		**599.4**	508.4
Non-controlling interests		**1.7**	3.0
Total equity		**601.1**	511.4

[1] Prior period restated to show pension schemes in surplus and deficit positions separately and to move £17.1m from current to non-current other receivables in regard to PFI lifecycle funds.

Consolidated cash flow statement

For the year ended 30 June 2018

	Notes	2018 £m	2017[1] £m
Cash flows from operating activities			
Profit/(loss) before tax – continuing operations		**106.2**	(14.2)
– discontinued operations		**(1.0)**	38.2
Non-underlying items excluding amortisation and finance costs	3	-	75.1
Net finance cost		**28.2**	22.4
Share of post-tax trading results of joint ventures		**(42.7)**	(23.5)
Normal cash contributions to pension fund in excess of pension charge		**0.8**	2.7
Equity settled share-based payments charge		**5.4**	2.7
Amortisation of intangible assets less negative goodwill recognised		**37.7**	30.1
Research and development expenditure credit		**(8.6)**	(4.7)
Depreciation charges		**19.1**	19.7
Profit on disposal of joint ventures		**(3.5)**	(5.4)
Profit on disposal of property, plant and equipment and intangible assets		**(0.8)**	(1.0)
Operating cash flows before movements in working capital and pension contributions		**140.8**	142.1
Deficit contributions to pension funds		**(26.6)**	(31.3)
Decrease/(increase) in inventories		**33.4**	(51.2)
Increase in receivables		**(29.4)**	(47.2)
Increase in payables		**32.5**	72.6
Decrease in provisions		**(9.9)**	(22.9)
Cash inflow from operating activities before non-underlying items		**140.8**	62.1
Cash outflow from operating activities (non-underlying items)		**(32.0)**	(2.0)
Cash inflow from operating activities		**108.8**	60.1
Dividends received from joint ventures		**30.5**	17.6
Interest received		**0.9**	1.8
Income taxes paid	4b	**(9.9)**	(3.8)
Net cash inflow from operating activities		**130.3**	75.7
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**3.6**	1.4
Proceeds from sale of joint ventures	8e	**4.9**	26.0
Proceeds from sale of subsidiary	8b	**0.1**	-
Proceeds from sale of joint ventures (non-underlying)		-	9.7
Proceeds from sale of subsidiary (non-underlying)		-	58.9
Purchases of property, plant and equipment		**(22.1)**	(15.8)
Purchase of intangible assets		**(41.2)**	(44.4)
Acquisition of subsidiaries	8a,d	**(16.7)**	-
Investment in joint ventures		**(71.5)**	(49.3)
Return of equity from joint ventures		**40.6**	5.6
Classification of assets held for sale		**2.1**	-
Net borrowings acquired with subsidiaries	8a,d	**(6.1)**	-
Net cash used in investing activities		**(106.3)**	(7.9)
Cash flows from financing activities			
Issue of shares		**0.2**	3.2
Purchase of own shares		**(1.3)**	(0.6)
Interest paid		**(21.7)**	(19.1)
Cash (outflow)/inflow incurred from raising finance		**(2.0)**	0.9
Inflow from finance leases on property, plant and equipment		**2.5**	1.7
Inflow from new borrowings		-	368.5
Finance lease repayments		**(10.2)**	(13.7)
Repayment of borrowings		**(91.3)**	(45.0)
Dividends paid to equity holders of the parent		**(66.1)**	(49.4)
Dividends paid to minority interests		**(1.5)**	(0.3)
Net cash (used in)/from financing activities		**(191.4)**	246.2
(Decrease)/increase in cash, cash equivalents and overdraft		**(167.4)**	314.0
Effect of change in foreign exchange rates		**(1.5)**	(0.9)
Opening cash, cash equivalents and overdraft		**499.8**	186.7
Closing cash, cash equivalents and overdraft	9	**330.9**	499.8

[1] Restated to reclassify the sales proceeds from the sale of Mouchel Consulting and Biogen as investing activities and to separately classify the profit and return of equity components of dividends from joint ventures in operating and investing activities respectively.

Notes to the consolidated financial statements

1 Accounting policies

There have been no significant changes to the accounting policies in these financial statements. They have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

2017 restatement

Following the FRC's review of the Company's 2017 Annual Report, the 2017 income statement and cash flow statement have been restated as follows:

› In accordance with IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, paragraph 33, the comparative figures have been restated to show the profit on sale of Mouchel Consulting (£40.0m) and associated tax credit (£1.1m) within non-underlying discontinued, rather than non-underlying continuing operations. In addition, the Directors have concluded that the operating results of Biogen should have been classified as continuing in the comparative figures. The prior year figures have not been restated to reflect this on the grounds of materiality.

› In accordance with IAS 7 Statement of Cash Flows, paragraph 16 (d), the comparative cash flow has been restated to show the net proceeds arising from the sale of Mouchel Consulting (£58.9m) and Biogen (£9.7m) as non-underlying investing activities rather than non-underlying operating activities. Whilst there is no impact on total basic earnings per share, the comparative basic earnings per share from continuing operations is decreased by 42.5p and basic earnings per share from discontinued operations is increased accordingly. The corresponding impacts on diluted earnings per share are a 0.1p increase in total diluted earnings per share; a 42.4p decrease in diluted earnings per share from continuing operations; and a 42.5p increase in diluted earnings per share from discontinued operations. The comparative information in Notes 3 and 8 have also been restated accordingly.

In addition, as the Group's use of joint ventures has increased, the Directors have reviewed the policy covering treatment of dividends from joint ventures. The Directors concluded that presenting the profit and return of equity components of these dividends, into operating and investing cashflows respectively, better enabled the reader to understand the underlying transactions. Consequently, £5.6m has been reclassified in the prior year cashflow statement from dividends received from joint ventures to return of equity in joint ventures.

Notes to the consolidated financial statements continued

2 Segmental reporting

The Group operates four divisions, Property, Residential, Construction and Services which is the basis on which the Group manages and reports its primary segmental information. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

Segment information is based on the information provided to the Chief Executive, together with the Board, who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the Chief Executive's review.

Year to 30 June 2018 **Continuing operations**	Property £m	Residential £m	Construction £m	Services £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	218.0	374.3	2,052.5	1,848.5	-	4,493.3
Less share of joint ventures	(139.1)	(131.4)	-	(2.7)	-	(273.2)
Group revenue	**78.9**	**242.9**	**2,052.5**	**1,845.8**	**-**	**4,220.1**
Profit						
Group operating profit/(loss)	6.5	8.3	41.9	91.9	(34.8)	**113.8**
Share of post–tax results of joint ventures	24.8	17.6	-	0.3	-	**42.7**
Profit on disposal of joint ventures	2.7	-	-	0.8	-	**3.5**
Underlying operating profit/(loss)	**34.0**	**25.9**	**41.9**	**93.0**	**(34.8)**	**160.0**
Underlying net finance (costs)/income[2]	(3.7)	(8.3)	5.5	(3.7)	(12.9)	**(23.1)**
Underlying profit/(loss) before tax	**30.3**	**17.6**	**47.4**	**89.3**	**(47.7)**	**136.9**
Non-underlying items:						
Amortisation of intangible assets relating to contract rights	(0.1)	-	(0.4)	(25.1)	-	**(25.6)**
Non-underlying finance costs	-	-	(1.4)	(3.7)	-	**(5.1)**
Profit/(loss) before tax from continuing operations	**30.2**	**17.6**	**45.6**	**60.5**	**(47.7)**	**106.2**
Balance sheet						
Total assets excluding cash	265.5	337.0	570.2	700.7	603.8	**2,477.2**
Liabilities excluding borrowings	(44.0)	(156.6)	(831.4)	(587.0)	(69.3)	**(1,688.3)**
Net operating assets/(liabilities)[3]	**221.5**	**180.4**	**(261.2)**	**113.7**	**534.5**	**788.9**
Cash, net of borrowings, net of hedge effects	(131.2)	(150.6)	329.8	89.3	(323.0)	**(185.7)**
Net assets excluding net liabilities held for sale	**90.3**	**29.8**	**68.6**	**203.0**	**211.5**	**603.2**
Net liabilities held for sale	-	-	-	(2.1)	-	(2.1)
Net assets	**90.3**	**29.8**	**68.6**	**200.9**	**211.5**	**601.1**
Other information						
Inter–segmental revenue [4]	-	-	2.2	72.7	10.1	**85.0**
Capital expenditure	-	-	2.6	6.2	13.3	**22.1**
Depreciation of property, plant and equipment	(0.1)	(0.1)	(5.7)	(7.9)	(5.3)	**(19.1)**
Amortisation of computer software	**-**	**-**	(0.9)	(0.9)	(12.1)	**(13.9)**

[1] Revenue is stated after the exclusion of inter-segmental revenue and before non-underlying items, including Mining revenue of £19.5m

[2] Interest was (charged)/credited to the divisions at a notional rate of 4.0%

[3] Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest bearing inter-company loans

[4] Inter-segmental pricing is determined on an arm's length basis.

Notes to the consolidated financial statements continued

2 Segmental reporting continued

Year to 30 June 2017 Continuing operations	Property £m	Residential £m	Construction[5] £m	Services[6] £m	Corporate £m	Group £m
Revenue[1]						
Group and share of joint ventures	182.0	375.7	2,019.4	1,688.1	-	**4,265.2**
Less share of joint ventures	(117.3)	(27.6)	-	(8.6)	-	**(153.5)**
Group revenue	**64.7**	**348.1**	**2,019.4**	**1,679.5**	**-**	**4,111.7**
Profit						
Group operating profit/(loss)	-	18.8	39.8	86.4	(29.8)	**115.2**
Share of post-tax results of joint ventures	20.4	4.0	-	0.6	-	**25.0**
Profit on disposal of joint ventures	5.4	-	-	-	-	**5.4**
Underlying operating profit/(loss)	**25.8**	**22.8**	**39.8**	**87.0**	**(29.8)**	**145.6**
Underlying net finance (costs)/income[2]	(5.0)	(8.9)	5.5	(4.3)	(6.8)	**(19.5)**
Underlying profit/(loss) before tax	**20.8**	**13.9**	**45.3**	**82.7**	**(36.6)**	**126.1**
Non-underlying items:						
Amortisation of intangible assets relating to contract rights	(0.1)	-	(0.4)	(21.8)	-	**(22.3)**
Non-underlying finance costs	-	-	(0.4)	(2.5)	-	**(2.9)**
Other non-underlying items	(7.6)	(2.2)	(89.5)	(10.7)	(5.1)	**(115.1)**
Profit/(loss) before tax from continuing operations	**13.1**	**11.7**	**(45.0)**	**47.7**	**(41.7)**	**(14.2)**
Balance sheet						
Total assets excluding cash	197.3	295.2	625.7	441.3	717.3	**2,276.8**
Liabilities excluding borrowings	(53.9)	(131.2)	(656.1)	(582.9)	(231.2)	**(1,655.3)**
Net operating assets/(liabilities)[3]	**143.4**	**164.0**	**(30.4)**	**(141.6)**	**486.1**	**621.5**
Cash, net of borrowings, net of hedge effects	(75.1)	(134.5)	280.0	116.8	(297.3)	**(110.1)**
Net assets/(liabilities)	**68.3**	**29.5**	**249.6**	**(24.8)**	**188.8**	**511.4**
Other information						
Inter–segmental revenue [4]	-	3.1	6.6	77.9	13.3	**100.9**
Capital expenditure	0.5	0.2	5.4	4.3	5.4	**15.8**
Depreciation of property, plant and equipment	(0.1)	(0.1)	(2.6)	(11.1)	(5.7)	**(19.6)**
Amortisation of computer software	**-**	**-**	(0.8)	(0.4)	(6.6)	**(7.8)**

[1] Revenue is stated after the exclusion of inter-segmental revenue and before non-underlying items, including Mining revenue of £17.1m

[2] Interest was (charged)/credited to the divisions at a notional rate of 4.0%

[3] Net operating assets/(liabilities) represent assets excluding cash, borrowings and interest bearing inter-company loans

[4] Inter-segmental pricing is determined on an arm's length basis

[5] Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1)

[6] Restated to show pension schemes in surplus and deficit positions separately.

Notes to the consolidated financial statements continued

3 Non-underlying items

	2018 £m	2017[1] £m
Portfolio simplification - closure of businesses		
Closure of Hong Kong operations and related contracts	–	(26.3)
Closure of Caribbean operations and related contract final accounts	–	(60.4)
Portfolio simplification - M&A activity		
Other M&A gains, losses and costs	–	(5.5)
Loss on disposal of Biogen	–	(7.6)
Other non-underlying costs		
Provision relating to Environmental Services contracts, recyclate costs, and curtailment of contracts	–	(11.1)
Provision for Health, Safety and Environmental (HSE) incidents arising from revised sentencing guidelines	–	(8.0)
Establishment of Cross Keys Homes joint venture	–	(2.2)
Pension curtailment gain	–	6.0
Total other non-underlying items	–	(115.1)
Amortisation of intangible contract rights	**(25.6)**	(22.3)
Financing costs	**(5.1)**	(2.9)
Total non-underlying items from continuing operations	**(30.7)**	(140.3)
Associated tax credit	**5.6**	10.9
Charged against profit for the year from continuing operations	**(25.1)**	(129.4)
Discontinued operations		
Gain relating to the disposal of Mouchel Consulting	–	40.0
Income tax credit on disposal of discontinued operations	–	1.1
Non-underlying items from discontinued operations	–	41.1
Charged against profit for the year	**(25.1)**	88.3

[1] Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1).

A number of items either relating to costs previously taken through non-underlying or similar in nature to those previously taken through non-underlying, have been taken through underlying in the current year. This is due to none being of sufficient size or incidence to warrant separate disclosure and the aggregate impact being immaterial. These items include further costs to close out Hong Kong and the Caribbean (£7m) and integration costs (£2m), offset by negative goodwill and deemed profit on disposal (£3m), resulting from acquiring the remaining 50% of a design and facilities management business (KBESL), and releases in respect of a small number of immaterial provisions (£4m).

Notes to the consolidated financial statements continued

4 Taxation

a) Recognised in the income statement

	2018			2017[2]		
	Underlying items[1] £m	**Non-underlying items (note 3) £m**	**Total £m**	Underlying items[1] £m	Non-underlying items (note 3) £m	Total £m
Current tax expense/(credit)						
UK corporation tax	**5.4**	**(1.2)**	**4.2**	14.1	(7.3)	6.8
Adjustments in respect of prior years	**0.1**	**-**	**0.1**	2.1	-	2.1
Foreign tax relief	**(1.6)**	**-**	**(1.6)**	-	-	-
	3.9	**(1.2)**	**2.7**	16.2	(7.3)	8.9
Foreign tax suffered	**2.6**	**-**	**2.6**	-	-	-
Total current tax	**6.5**	**(1.2)**	**5.3**	16.2	(7.3)	8.9
Deferred tax expense/(credit)						
Origination and reversal of temporary differences	**21.6**	**(4.4)**	**17.2**	8.3	(3.6)	4.7
Adjustments in respect of prior years	**(3.0)**	**-**	**(3.0)**	0.2	-	0.2
Rate change effect on deferred tax	**(1.8)**	**-**	**(1.8)**	(2.8)	-	(2.8)
Total deferred tax	**16.8**	**(4.4)**	**12.4**	5.7	(3.6)	2.1
Total tax charge/(credit) in the income statement	**23.3**	**(5.6)**	**17.7**	21.9	(10.9)	11.0
Reconciliation of effective tax rate						
Profit/(loss) before tax	**136.9**	**(30.7)**	**106.2**	126.1	(140.3)	(14.2)
Add: tax on joint ventures included above	**0.1**	**-**	**0.1**	0.9	-	0.9
Adjusted profit/(loss) before tax	**137.0**	**(30.7)**	**106.3**	127.0	(140.3)	(13.3)
Income tax at UK corporation tax rate of 19.00% (2017: 19.75%)	**26.0**	**(5.8)**	**20.2**	25.1	(27.7)	(2.6)
Non–deductible expenses and unusable tax losses	**0.7**	**0.1**	**0.8**	1.8	16.8	18.6
Income not taxable	**(0.3)**	**-**	**(0.3)**	-	-	-
Effect of tax rates in foreign jurisdictions	**1.1**	**-**	**1.1**	-	-	-
Effect of change in UK corporation tax rate	**(1.9)**	**0.1**	**(1.8)**	(2.7)	-	(2.7)
Share based payments deduction	**1.5**	**-**	**1.5**	(0.5)	-	(0.5)
Capital gains not taxed	**(0.5)**	**-**	**(0.5)**	-	-	-
Utilisation of tax losses	**(0.3)**	**-**	**(0.3)**	(3.2)	-	(3.2)
Adjustments in respect of prior years	**(2.9)**	**-**	**(2.9)**	2.3	-	2.3
Total tax (including joint ventures)	**23.4**	**(5.6)**	**17.8**	22.8	(10.9)	11.9
Tax on joint ventures	**(0.1)**	**-**	**(0.1)**	(0.9)	-	(0.9)
Group tax charge/(credit)	**23.3**	**(5.6)**	**17.7**	21.9	(10.9)	11.0

[1] Stated before non-underlying items, see note 3

[2] Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1).

Non-underlying items includes significant one-off costs related to restructuring, disposals, acquisitions and business closures. Amortisation disclosed separately relates to the amortisation of contract right costs held as intangibles on the balance sheet.

Kier Group and its subsidiaries are based predominantly in the UK and are subject to UK corporation tax. The Group does, however, operate and pay taxes in jurisdictions where the tax rate is higher than the UK's statutory rate. The Group does not have an aggressive tax policy and since 1st July 2012 Kier has not entered into any tax avoidance schemes which were or should have been notified under the Disclosure of Tax Avoidance Scheme (DOTAS) rules.

The underlying Group tax charge of £23.3m (2017: £21.9m) shown in the table above equates to an effective tax rate of 17.0% (2017: 17.2%) on adjusted profit before tax of £137.0m (2017: £127.0m). This effective rate is lower than the standard rate of corporation tax of 19.00% (2017: 19.75%) due to a number of items shown in the table above. The non-deductible expenses included in underlying mainly relate to depreciation on non-qualifying assets.

In accordance with UK tax legislation, capital gains arising on disposal of certain investments, including some of the joint ventures disposed of during the year, are not subject to tax.

Tax relief on expenses not recognised in the income statement includes the impact of the tax deduction received in respect of the cost of shares exercised under the Group's employee Save As You Earn Scheme and Long Term Incentive Plan.

Notes to the consolidated financial statements continued

4 Taxation continued

The Group provides for future liabilities in respect of uncertain tax positions where additional tax may become payable in future periods and such provisions are based on management's assessment of exposure. At the balance sheet date, a deferred tax liability of £5.5m (2017: £3.7m) has been recognised in respect of uncertain tax positions, which includes a non-specific provision of £1.0m (2017: £1.8m).
The net (credit)/charge adjustment of £(2.9)m (2017: £2.3m) in respect of prior years' results arise from differences between the estimates of taxation included in the previous year's financial statements and the actual tax liabilities calculated in the tax returns submitted to and agreed by HMRC. In November 2017, UK tax legislation was enacted which resulted in the use of losses since 1 April 2017 becoming more flexible. As a result of this enactment, and review of carried forward losses, a prior year deferred credit of £5.6m was included in respect of the additional deferred tax assets on losses.

b) Recognised in the cash flow statement

The cash flow statement shows payments of £9.9m during the year (2017: £3.8m payment).

c) Recognised in the statement of comprehensive income

	2018 £m	2017 £m
Deferred tax expense/(credit) (including effect of change in tax rate)		
Share of fair value movements on joint venture cash flow hedging instruments	**0.1**	(0.4)
Fair value movements on cash flow hedging instruments	**(0.3)**	(0.4)
Actuarial gains/(losses) on defined benefit pension schemes	**13.6**	(2.1)
Total tax charge/(credit) in the statement of comprehensive income	**13.4**	(2.9)

The deferred tax movements on the defined benefit pension scheme comprised of £13.6m (2017: (£5.8m)) on current year actuarial movements and £nil (2017: £3.7m) in respect of the movements in tax rates on which deferred tax is being recognised.

d) Factors that may affect future tax charges

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

e) Tax losses

At the balance sheet date the Group has unused tax losses of £204.5m (2017: £161.6m) available for offset against future profits. A deferred tax asset has been recognised on £39.4m (2017: £10.8m) of these losses.
No deferred tax asset has been recognised in respect of the remaining losses due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

5 Dividends

Amounts recognised as distributions to equity holders in the year	**2018 £m**	2017 £m
Final dividend for the year ended 30 June 2017 of 45.0 pence (2016: 43.0 pence)	**43.7**	41.2
Interim dividend for the year ended 30 June 2018 of 23.0 pence (2017: 22.5 pence)	**22.4**	21.8
	66.1	63.0

The proposed final dividend of 46.0 pence (2017: 45.0 pence) bringing the total dividend for the year to 69.0 pence (2017: 67.5 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling circa £44.7m will be paid on 3 December 2018 to shareholders on the register at the close of business on 28 September 2018. A 'dividend reinvestment plan' (DRIP) alternative will be offered.

The Board has adopted a progressive dividend policy, aiming to maintain or grow the dividend each year. Looking ahead, the Board is committed to a sustainable dividend policy, intending to increase dividend cover towards 2x by 2020 (calculated by dividing the underlying earnings per share for the year by the total dividend per share payable in respect of the year – being the interim dividend paid plus the final proposed dividend).

The parent company of the Group, Kier Group plc, is a non-trading holding company which derives its distributable reserves in part from dividends received from its subsidiaries. In determining the level of dividend payable in any year, in addition to the stated policy, the Board considers a number of other factors, including the following:

- the level of distributable reserves in the parent company, Kier Group plc;
- the level of distributable reserves in Kier Group plc's subsidiaries that are available to be distributed to Kier Group plc;
- the availability of cash resources (as disclosed in note 20 to the consolidated financial statements);
- the Group's borrowing covenants;
- future cash commitments and investment plans to support the long-term growth of the Group; and
- potential strategic opportunities under consideration.

The Board reviews the level of distributable reserves in the parent company at least twice a year ahead of announcing proposed interim and final dividends. As at 30 June 2018 Kier Group plc had distributable reserves of £157.1m (2017: £112.9m). The dividends paid out during the year totalled 69.0 pence per share on an underlying earnings per share of 116.7 pence, giving a dividend cover of 1.7x.

Notes to the consolidated financial statements continued

5 Dividends continued

Distributable reserves can be significantly impacted by movements in pension liabilities. The reserves of Kier Group plc are not directly affected by these movements as the pension surpluses and liabilities are on the balance sheets of a certain number of the Company's subsidiaries. However, movements in the pension liabilities do have an effect on the level of distributable reserves in Kier Group plc's subsidiaries that are available to be paid up to the parent. Actuarial gains only increase the distributable reserves to the extent that they represent reversals of previous actuarial losses, otherwise they are treated as unrealised and are not distributable.

The ability of the Board to maintain the dividend policy is influenced by a number of the principal risks identified on pages 38 to 43 of the 2018 Annual Report and Accounts that could have an adverse effect on the performance of the Group. However, the Board believes that the Group is well positioned to mitigate these risks and to continue to fund its dividend which remains well covered by profits and cash generated by the business.

6 Earnings per share

A reconciliation of profit and earnings/(loss) per share, as reported in the income statement, to underlying profit and earnings per share is set out below. The adjustments are made to illustrate the impact of non-underlying items.

	2018		2017[1]	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Continuing operations				
Earnings/(loss) (after tax and minority interests), being net profits/(losses) attributable to equity holders of the parent	**88.3**	**88.3**	(26.3)	(26.3)
Impact of non-underlying items net of tax:				
Amortisation of intangible assets - net of tax credit of £4.7m (2017: £4.4m)	**20.9**	**20.9**	17.9	17.9
Acquisition discount unwind[2] - net of tax credit of £0.9m (2017: £0.5m)	**2.8**	**2.8**	2.0	2.0
Other non-underlying items - net of tax credit of £nil (2017: £6.0m)	**1.4**	**1.4**	109.5	109.5
Earnings from continuing operations	**113.4**	**113.4**	103.1	103.1
Discontinued operations				
Loss (after tax and minority interests), being net (loss)/profit attributable to equity holders of the parent	**(1.0)**	**(1.0)**	(4.1)	(4.1)
Other non-underlying items – including tax credit of £nil (2017: £1.1m)	**-**	**-**	41.1	41.1
(Loss)/earnings from discontinued operations	**(1.0)**	**(1.0)**	37.0	37.0
	million	million	million	million
Weighted average number of shares used for earnings per share	**97.2**	**98.3**	96.5	97.1
	pence	pence	pence	pence
Earnings/(loss) per share				
Continuing operations				
Earnings/(loss) (after tax and minority interests), being net profits/(losses) attributable to equity holders of the parent	**90.8**	**89.8**	(27.3)	(27.3)
Impact of non-underlying items net of tax:				
Amortisation of intangible assets	**21.5**	**21.3**	18.5	18.5
Acquisition discount unwind	**2.9**	**2.8**	2.1	2.1
Other non-underlying items	**1.5**	**1.5**	113.5	113.5
Earnings from continuing operations	**116.7**	**115.4**	106.8	106.8
Discontinued operations				
Loss (after tax and minority interests), being net profits/(losses) attributable to equity holders of the parent	**(1.0)**	**(1.0)**	(4.2)	(4.2)
Other non-underlying items	**-**	**-**	42.5	42.5
(Loss)/earnings from discontinued operations	**(1.0)**	**(1.0)**	38.3	38.3
Total earnings per share				
Statutory	**89.8**	**88.8**	11.1	11.1
Underlying	**115.7**	**114.4**	102.6	102.6

[1] Restated to reclassify the profit on disposal of Mouchel Consulting within discontinued operations (see note 1)

[2] Unwind of discount in respect of deferred consideration and fair value adjustments made on acquisition and interest on UK Mining loan.

Notes to the consolidated financial statements continued

7 Retirement benefit obligations

The amounts recognised in respect of the Group's defined benefit pension schemes are as follows:

	Kier Group Pension Scheme £m	Mouchel Pension Schemes[2, 4] £m	May Gurney Pension Schemes £m	McNicholas Pension Schemes £m	2018 Total £m	Kier Group Pension Scheme £m	Mouchel Pension Schemes[2, 3, 4] £m	May Gurney Pension Schemes £m	2017 Total £m
Opening deficit	**(31.1)**	**(47.6)**	**(5.9)**	**-**	**(84.6)**	(23.5)	(58.3)	(6.0)	(87.8)
Acquired deficit	**-**	**-**	**-**	**(10.9)**	**(10.9)**	-	-	-	-
(Charge)/credit to income statement[1]	**(1.0)**	**(1.6)**	**(0.2)**	**(0.2)**	**(3.0)**	(1.5)	3.2	(0.5)	1.2
Employer contributions	**13.4**	**9.2**	**2.4**	**1.6**	**26.6**	16.9	12.3	2.1	31.3
Actuarial gains/(losses)	**43.9**	**31.2**	**2.6**	**2.1**	**79.8**	(23.0)	(4.8)	(1.5)	(29.3)
Closing surplus/(deficit)	**25.2**	**(8.8)**	**(1.1)**	**(7.4)**	**7.9**	(31.1)	(47.6)	(5.9)	(84.6)
Comprising:									
Total market value of assets	**1,120.0**	**463.4**	**75.1**	**22.7**	**1,681.2**	1,108.4	451.5	76.9	1,636.8
Present value of liabilities	**(1,094.8)**	**(472.2)**	**(76.2)**	**(30.1)**	**(1,673.3)**	(1,139.5)	(499.1)	(82.8)	(1,721.4)
Net surplus/(deficit)	**25.2**	**(8.8)**	**(1.1)**	**(7.4)**	**7.9**	(31.1)	(47.6)	(5.9)	(84.6)
Related deferred tax asset	**(4.3)**	**1.5**	**0.2**	**1.3**	**(1.3)**	5.3	8.1	1.0	14.4
Net pension asset/(liability)	**20.9**	**(7.3)**	**(0.9)**	**(6.1)**	**6.6**	(25.8)	(39.5)	(4.9)	(70.2)

[1] Amounts charged to income statement for Mouchel pension schemes for the year to 30 June 2018 include a £0.3m curtailment gain (2017: £6.0m)
[2] This comprises of schemes in net surplus and net deficit positions, £14.3m surplus and £23.1m deficit at 30 June 2018 (30 June 2017: £4.6m surplus and £52.2m deficit)
[3] The prior year's balance sheets have been restated to show the gross net surplus/(deficit) and net asset/(liabilities) positions
[4] The Mouchel figures comprise four individual schemes, Mouchel Superannuation Fund, Mouchel Staff Pension Scheme, Mouchel Business Services Limited Pension Scheme (Final Salary Section) and EM Highways Prudential Platinum Scheme, which have been grouped together because they were purchased as part of the Mouchel Group. The composition of these schemes has not changed since the prior year.

8 Acquisitions and disposals

a) Acquisition of McNicholas (subsidiary)

The Group purchased the entire share capital of McNicholas Construction (Holdings) Limited ("McNicholas") on 12 July 2017. McNicholas is an established UK engineering services provider to the UK's multi-utility sectors including telecommunications, gas, power, water, renewable energy and rail. Working across the UK and with headquarters in Elstree, Hertfordshire, McNicholas employs 1,880 people and has a client base which includes Virgin Media, Network Rail and UK Power Networks.

This investment in the Kier Group utilities and infrastructure services business has strengthened Kier's position in one of its key sectors and built its expertise in infrastructure services.

The maximum consideration payable for the acquisition is £27.4m, comprising £13.4m in cash paid on acquisition 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 over a 2 year period; and
› £4.5m payable on achievement of certain debt-recovery targets, of which £2.4m has been paid during the year.

The discounted fair value of the consideration expected to be paid is £26.3m and intangible assets of £12.1m were identified on acquisition, representing the fair value of customer contracts at the date of acquisition.

The assets and liabilities purchased for resale in the table below relate to Wheldon Contracts & Services Limited (note 8(b)) and are measured at fair value less costs to sell. The Group has elected to use the 'short cut' method under IFRS 5 Non-current Assets Held for Sale and Discontinued Operations to present the assets and liabilities of the subsidiary separately rather than as components of the classes of assets and liabilities acquired.

Goodwill arising on acquisition of £42.8m is attributable to the knowledge and expertise of the assembled workforce and the operating synergies that arise from the Group's strengthened market position. None of the goodwill recognised is expected to be deductible for tax purposes.

£1.6m of acquisition costs were incurred in the year ended 30 June 2017 and a further £0.2m of acquisition costs have been incurred in the year and expensed to the income statement. In addition, integration costs of £1.6m have been incurred in the year.

Notes to the consolidated financial statements continued

8 Acquisitions and disposals continued

The fair values attributable to the transaction are set out below:

	Fair value to the Group £m
Intangible assets	12.1
Property, plant and equipment	1.5
Deferred tax assets	5.7
Inventories	1.8
Trade and other receivables	46.8
Income tax receivable	0.8
Bank overdrafts	(8.0)
Trade and other payables due within 1 year	(55.1)
Trade and other payables due after 1 year	(1.0)
Retirement benefit obligations	(10.9)
Provisions	(10.0)
Assets purchased for resale	3.5
Liabilities purchased for resale	(3.7)
	(16.5)
Goodwill	42.8
Total assets acquired	**26.3**
Satisfied by:	
Cash consideration	13.4
Deferred consideration	12.9
Total consideration	**26.3**

In preparing the results, revenue and costs have been included as if the businesses were acquired on 1 July 2017 and the inter-company transactions have been eliminated.

The McNicholas businesses contributed £217.0m to Group revenue and £10.2m to underlying profit before taxation for the year to 30 June 2018.

b) Disposal of Wheldon Contracts & Services Limited (subsidiary)

On 29 June 2018 the Group, through its subsidiary McNicholas Construction (Holdings) Limited, disposed of its investment in Wheldon Contracts & Services Limited.

	2018 £m
Net sale proceeds	**0.1**
Costs of disposal	**(0.3)**
Book value of net liabilities	**0.2**
Profit/(loss) on disposal	**-**

c) Acquisition of the trade and assets of Smart Motorways

On 15 January 2018, Carillion Plc went into liquidation and consequently forfeited its share of the Smart Motorways joint venture. Kier assumed 100% of the assets and liabilities of the contract at this date. No consideration was payable for Carillion's share. This transaction has been accounted for as an acquisition of trade and assets, resulting in the recognition of £5.2m of net assets and profit, before related costs.

Notes to the consolidated financial statements continued

8 Acquisitions and disposals continued

d) Deemed disposal of an investment in joint venture and subsequent acquisition as a subsidiary of Kier Babcock Education Services Limited

On 26 October 2017 the Group, through its subsidiary Kier Holdings Limited, acquired the remaining share capital of its joint venture Kier Babcock Education Services Limited ("KBESL"). On the same date the Group, through its subsidiary Kier Facilities Services Limited, acquired an unincorporated business from Babcock Civil Infrastructure Limited ("the Lewisham business") for consideration of £1.7m. The acquisition opens the Group up to opportunities to participate in future schemes up to 2023, as well as increasing current profitable revenue streams.

The Group previously held 50% of the share capital of KBESL. The Group acquired the remaining 50% of the share capital of KBESL from the joint venture partner for £0.9m, and renamed the company Kier Education Services Limited ("KESL"). This transaction has been treated as a deemed disposal of a joint venture and subsequent acquisition of a subsidiary.

Deemed disposal of a joint venture

A gain of £0.8m arose on the deemed disposal of the joint venture, calculated as follows:

	2018 £m
Deemed consideration	**2.5**
Carrying value of interest held	**(1.7)**
Gain on deemed disposal	**0.8**

Acquisition of subsidiary KBESL and the Lewisham business

Final fair value of assets and liabilities acquired:

	Fair value to the Group £m
Non-current asset	4.4
Current assets	7.3
Cash at bank	1.9
Current liabilities	(4.7)
Non-current liabilities	(1.2)
	7.7
Negative goodwill	(2.6)
Total assets acquired	5.1
Satisfied by:	
Cash consideration	2.6
Deemed disposal of joint venture	2.5
Total consideration	**5.1**

e) Disposal of other investments in joint ventures

During the year the Group, through its subsidiary Kier Project Investment Limited, disposed of its interest in Evolution (Woking) Holdings Limited, for a total consideration of £4.9m. In the underlying results of the property segment the profit on disposal recognised in the year was £2.7m.

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

	2018 £m	2017 £m
Sale proceeds	**4.9**	35.7
Book value of net assets	**(1.9)**	(37.2)
Sale costs	**(0.3)**	(2.1)
Profit/(loss) on disposal	**2.7**	(3.6)
Deemed disposal	**0.8**	-
Total profit/(loss) on disposal	**3.5**	(3.6)

Notes to the consolidated financial statements continued

8 Acquisitions and disposals continued

f) Prior year 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)**
Net assets disposed of	**(13.9)**
Profit on disposal	**40.0**

The direct costs of disposal of Mouchel Consulting comprise costs relating to the unwinding of the existing Mouchel group structure and back office services and transaction related fees and bonuses.

In addition to these costs, the transaction triggered a number of other related charges, including contract settlements, dissolution of the existing IT team (including impairment of related assets) and provision for onerous contracts. These charges were partly offset by insurance recoveries and anticipated income from a transitional services agreement. These charges have also been included within the total costs of disposal.

9 Cash, cash equivalents, overdraft and borrowings

	2018 £m	2017 £m
Net debt consists of:		
Cash and cash equivalents – bank balances and cash in hand	**330.9**	499.8
Borrowings due within one year	**(12.0)**	(50.0)
Borrowings due after one year	**(524.9)**	(581.8)
Impact of cross-currency hedging	**20.3**	21.9
Net borrowings	**(185.7)**	(110.1)

10 Statutory accounts

The information set out above does not constitute statutory accounts for the years ended 30 June 2018 or 2017 but is derived from those accounts.

Statutory accounts for 2017 have been delivered to the Registrar of Companies and those for 2018 will be delivered following the Company's annual general meeting and will be made available on the Company's website, www.kier.co.uk. The accounts have been prepared on a going concern basis which the directors consider appropriate. The auditors have reported on the 2018 and 2017 accounts, their reports were unqualified and did not contain statements under section 498 (1) or (2) of the Companies Act 2006.