For release at 0700 hours on 4 July 2016

**KIER GROUP PLC**
**TRADING UPDATE**

Kier Group plc, a leading property, residential, construction and services group, provides an update on current trading following its year end on 30 June 2016.

**Current trading**

Since the announcement of its interim results on 17 March 2016, the Group's underlying trading performance has remained in line with management's expectations.

The EU referendum result has created some uncertainty albeit with no impact on the business to date. The Board, however, believes the Group's breadth of activities and strong order books provide both visibility and resilience. The acquisitions of May Gurney and Mouchel have significantly increased the level of visible, long-term earnings from our Construction and Services divisions. The Property division has a healthy pipeline of projects totalling more than £1bn, largely comprising non-speculative schemes, and the Residential division's mixed tenure business has a pipeline of over £600m.

**Financial position**

Following an improved cash performance, the Group's net debt position of less than £140m at 30 June 2016 is ahead of the forecast range of £150m - £170m. This position includes the cash expenditure of £44m on the Mouchel integration and £25m on new systems and upgrades. This performance equates to a net debt to EBITDA ratio of <1, which has been achieved a year ahead of our Vision 2020 goal of a net debt to EBITDA ratio of 1 by 30 June 2017.

The Group has recently concluded the raising of £82m (€100m) of additional finance via the Schuldschein market. The placement has an average maturity of approximately five years and a blended interest rate of approximately 3% including fees. This fundraising further diversifies the Group's sources of funding and provides it with long-term, fixed-rate debt, thereby reducing the Group's exposure to increases in interest rates over the longer-term.

**Mouchel update**

The Mouchel business is performing well. The integration of the strategic highways and local authority highways maintenance businesses is now complete. In addition, the Mouchel business services operations have been integrated with Kier's facilities management operations, creating Kier Workplace Services. These activities have delivered the anticipated cost savings of £4m in FY16. Furthermore, they are expected to deliver additional savings of £5m in FY17, increasing the total anticipated annual cost synergies from the Mouchel acquisition to a total of £15m in FY17. To achieve the higher level of savings, integration costs have increased by £29m to £44m, with these additional costs having been incurred during FY16. The Mouchel acquisition remains on track to deliver a ROCE in excess of our target of 15% in FY17.

**Portfolio simplification**

Following the integration of recent acquisitions, simplification of the Group's portfolio is a priority, and will provide focus on the businesses which will underpin the Group's growth expectations in our core markets; infrastructure, building and housing.

As a result, a review has been undertaken of those operations which do not meet the Group's strict financial hurdles and/or do not provide a long-term strategic fit with the Group's core businesses. The following are expected to be completed in the coming months;

- An evaluation of the strategic options for the Mouchel Consulting business, including a possible sale. Mouchel Consulting's EBIT for FY16 was £8m and net assets were £25m at 30 June 2016. It is expected that a profit would be realised on the completion of any disposal;
- In Construction, as previously reported, the trading environment in the Caribbean remains challenging and, as a consequence, activities in the region are being wound down. A one-off exceptional charge of £18m will be incurred in the results for FY16, which relates to a write down in asset values, work in progress and redundancy arrangements. However, these will have no effect on future cash flow forecasts; and

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- In Services, the financial performance of the Environmental Services business continues to be affected by the low oil price and, consequently, the price of recyclates, despite stable operational performance at contract level. As a result, a provision of £35m will be taken in FY16, which provides for all future cash outflows on two environmental contracts of eight and ten years' duration, respectively.

Exceptional charges from the above portfolio simplification, totalling £53m, will be reported in FY16. Any exceptional gain on the sale of Mouchel Consulting would be expected to be reported in FY17. In cash terms, the total effect of the above items is expected to be cash positive in FY17.

**FY16 Divisional update**

**Property**
The Property division benefitted from a strong development market in its core sectors, reaching a peak of £130m capital invested, as anticipated, during FY16, principally outside of London. Its regional coverage and sector breadth provided considerable opportunity, as demonstrated by the range of non-speculative property developments in its portfolio, although the recent changes to stamp duty land tax have increased operating costs. The contribution of the division to the Group's financial performance was second-half weighted, as anticipated. The division has a healthy pipeline of projects totalling more than £1bn and we expect it to continue to deliver a ROCE in excess of our 15% target.

**Residential**
The Residential division performed well and continued to recycle its capital into the mixed tenure business to drive growth. The division has delivered approximately 2,200 completions in FY16. In early May, the division established a new public-private partnership called The New Communities Partnership ("the Partnership"), with Cheyne Capital and The Housing Growth Partnership (a joint venture between Lloyds Bank and the Homes and Communities Agency), with the aim of delivering approximately 10,000 new affordable homes across the UK over the next five years. The Partnership will operate a capital efficient model and its launch has received strong interest from our local authority clients.

**Construction**
The Construction division continued to perform well and underlying margins remain in line with management's expectations. More than 85% of the targeted revenue for FY17 is covered by the current order book. Key successes in the period include the award of a new £600m highways framework in the East of England, with Kier being one of six contractors appointed to the major works lot. CEK, a joint venture partnership with Carillion and Eiffage established in June 2015, has pre-qualified for four of the seven HS2 Phase 1 civil engineering packages, each worth about £1bn. This further expands Kier's involvement in HS2, with CEK already pre-qualified to tender for all three enabling work packages, each worth more than £200m.

Internationally, we have been named preferred bidder for a £49m accommodation project in Dubai for Nshmi, a local developer, which will be funded with the support of UK Export Finance. In addition, we have been chosen as preferred bidder for an £11m infrastructure contract at the Dubai Town Square development in the emirate for the same client. We have also been awarded a further £15m infrastructure project by our existing key customer, Meraas.

**Services**
More than 85% of the Services division's targeted revenue for FY17 is covered by the current order book. Underlying operating margins remain robust and in line with management's expectations.

In utilities, a £105m five-year extension has been awarded to the Scottish Water contract for the provision of repair and maintenance services for the waste water network across Scotland. In addition, two extensions for existing contracts with South West Water and Bournemouth Water are in advanced discussion. In the strategic highways business, a £50m design services contract was awarded by Highways England for Area 7, covering the East Midlands.

**Outlook**
Current trading is positive and the Group will continue its disciplined approach to winning work and risk management. In summary, and as shown following the successful integration of Mouchel, the Group has a track record of driving efficiencies through the business as well as managing risk effectively. The Group's

excellent cash performance, combined with our new fixed-rate facilities, provide a robust platform for the year ahead.

**Analyst trading update call – 4 July 2016**
A conference call with Haydn Mursell, Chief Executive Officer, and Bev Dew, Finance Director, will be held for analysts and investors at 08.00 BST today. Dial in details are as follows: International access number: +44 (0) 20 3003 2666 Password: Kier.

**Analyst seminar, Basingstoke – 6 July 2016**
Kier will be holding a seminar for analysts and investors on 6 July to provide an insight into the strategy underpinning Kier's Infrastructure Services operations, with a particular focus on opportunities in the highways market and how Kier's Services offering has evolved following the acquisitions of May Gurney and Mouchel. A webcast of the analyst seminar will be available on www.kier.co.uk from 12 noon on 7 July. During the forum, comments on trading will be consistent with this update.

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**For further information, please contact:**

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