

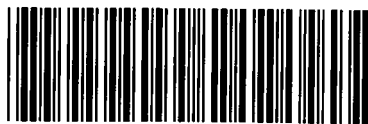
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Kier Construction Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2022

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Kier Construction Limited

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Kier Construction Limited

Company Information

Directors L J Cummins
G C Garvie
M F Jones
B C Mendonca

Company secretary J Tham

Registered office 2nd Floor
Optimum House
Clippers Quay
Salford
M50 3XP

Independent Auditors PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022

The directors present their strategic report for Kier Construction Limited (the "Company") for the year ended 30 June 2022.

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

Business review

Fair review of the business

The Company operates throughout the United Kingdom, constructing essential buildings such as schools, hospitals, prisons, office buildings and amenities centres for central government, local authorities, councils and the private sector.

Revenue generated in FY22 was £1.150bn; as anticipated this was 20.9% lower than FY21 (£1.453bn) due to deferred orders during the initial Covid period and consequential delayed project starts and the successful completion of the HMP Five Wells prison strategic project in Wellingborough which resulted in a ramp down of activity. In anticipation of the reduced revenue, the business re-aligned the cost base accordingly and managed to maintain the quality of earnings reported.

The Company also maintained and strengthened its market leading position throughout the 2022 financial year, securing new contract awards valued at £1.1bn during the year, and significantly increasing the total order book to £2.9bn (2021: £1.9bn), which included being appointed by the Ministry of Justice to deliver a new £400m prison in Full Sutton. The business was also recently awarded a £500m contract to deliver new houseblock buildings across six prisons in conjunction with Wates, which will further strengthen the order book.

The cash performance of the Company also continued to remain resilient, with ongoing support from all key stakeholders and clients, and importantly, this support was passed through to the supply chain who are a critical factor in the Company's performance. The net cash balance on 30 June 2022 was £434m (2021: £457m), with the average positive cash balance through the 2022 financial year of £263m (2021: £291m). Equally importantly, the Company again improved payments practices to the supply chain, as evidenced by the improved statistics in the external Payment Practices Reporting in line with the Prompt Payment Code, with 90% of all invoices paid within 60 days and quicker average times to pay all invoices.

Adjusted operating profit (being profit after deducting administrative expenses, but before deducting adjusted items) in the year was £33.5m (2021: £31.6m); this equates to an underlying operating profit margin of 2.9% (2021: 2.2%).

The Company recognised £32.3m of adjusting items relating to the restructuring of our Southern regional business and fire and cladding rectification costs.

- Legacy contract losses relating to the restructure of the Southern region of £22.3m (2021: £23.6m)
- Fire / cladding related claims of £7.7m (2021: £3.0m)
- Strategic restructure and cost reductions of £2.1m (2021: £1.1m)
- Other £0.1m (2021: £0.1m)

Profit before tax was £7.9m (2021: £11.2m), with the statutory operating profit reported at £1.3m (2021: £3.8m).

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022 (continued)

Net assets at 30 June 2022 were £91.0m (2021: £82.6m); this reflects an increase in the year, with net assets underpinned by the strong cash and working capital position.

The continuing trend for public and private sector clients adopting construction frameworks as the preferred method to procure new work provides long-term visibility of future work, with 65% of new work procured through frameworks. During the year the company was re-appointed to all frameworks that were renewed and secured places on all of those targeted; this maintains access to over £3bn of opportunities annually.

As a regional contractor, the Company is well placed to benefit from the £5bn 'New Deal' opportunities announced by the Government which focus on areas such as health, education and custodial services, where the company has specialist expertise, although the business has started to see a small number of deferrals in project awards caused by procurement delays. In addition, whilst the Company recognises the risk of cost inflation, there is the ability to mitigate this with customer and supplier agreements.

The Strategic Projects business successfully completed the HMP Five Wells prison project in Wellingborough, which utilised innovative modular building techniques allowing a more standardised approach and integrated digital tools to drive efficiencies in the design, construction and operation of the facility. This approach will be utilised to deliver the new £400m prison in Full Sutton.

Education remains as the largest sector in the Business; revenue from this source aggregated £310m (2021: £440m). The majority of this work 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. The presence in this sector has enabled the Business to successfully address opportunities to develop learning and accommodation projects for universities and colleges. This sector provides a stable platform to develop the business.

The Procure 22 Health Framework Contract and other opportunities enabled the Company to generate £273m (2021: £262m) of revenue within the Health Sector. There are more than £1bn of healthcare opportunities in the pipeline, underpinned further by the recent Government announcement of additional NHS funding. The Company is progressing a range of projects in the sector and expects to improve market share in FY22 and beyond. The Company's presence in Health and Education also enables diversification into the related Bioscience sector.

Expansion into Defence work is progressing as planned; with contracts ongoing at MOD Clyde, RAF Lakenheath and RAF Lyneham generating £100m of revenue (2021: £88m); opportunities are available from the MoD's future defence estate development requirements and planned capital investment works.

The business continues to operate in the local authority, civic and municipal buildings sectors, enabling the Company to generate revenues of £239m (2021: £269m). These sectors provide a stable platform to develop the business.

Our people are on the front line of the delivery of the Company's services which means that their overall levels of satisfaction and engagement are a key factor in our ability to deliver a great service for our clients. The Company measures satisfaction through the Kier Group annual employee engagement survey.

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

	Unit	2022	2021
Revenue (decrease)/growth	%	(20.9)	6.5
Adjusted operating profit	£m	33.5	31.6
Operating profit	£m	1.3	3.8
Net cash	£m	434.2	457.0
Order book	£bn	2.9	1.9

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022 (continued)

Stakeholders

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

Employees, customers, shareholders, supply chain partners, banks, lenders, sureties and insurers, pension trustees, joint venture partners and the UK government are all key stakeholders for the Group. As part of the decision-making process, Kier looks at how it will potentially impact its stakeholders. Engagement with stakeholders is seen as key to the delivery of Kier's purpose and strategy and therefore its long-term sustainable success. Read more on our engagement with key stakeholders in the Kier Group plc 2022 Annual Report on pages 32 to 35.

Principal risks and uncertainties

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

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

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

The following sets out the principal risks faced by the Company and how they are mitigated:

Health and safety

Principal risk: failure to maintain a safe working environment and prevent a major incident.

The Company's operations are complex and potentially hazardous and require the continuous management of health, safety, wellbeing and sustainability matters.

Potential impact:

- An increase in safety or environmental incidents on site;
- The failure to meet clients' expectations, adversely affecting the ability to bid for and win new work;
- Financial penalties arising from fines, legal action and project delays; and
- An unhealthy employee population with heightened risk of stress, resulting in greater levels of absence and less operational resilience.

Mitigating actions:

- Continued focus on the five SHE basics;
- Implementing the responsible business approach which includes the launch of the Kier Group's new Health, Safety & Wellbeing strategy, alongside the consistent delivery of the Kier Group's 'Building for a Sustainable World' framework;
- Embed the four strategic pillars and associated objectives of the Kier Group's Health, Safety & Wellbeing strategy (behaviour, operational safety, health and wellbeing and engineering safety); and
- Setting a tone from the top, through activities such as senior management visible leadership tours.

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022 (continued)

Legislation and regulation

Principal risk: failure to comply with and manage effectively current legislation and regulation and any changes to them.

The sectors in which the Company operates are subject to increasing scrutiny from stakeholders, oversight from regulators and requirements including those introduced by new legislation or regulation.

Potential impact:

- Penalties for failing to adhere to legislation or regulation;
- Increased operating costs of compliance;
- The loss of business; and
- Reputational damage.

Mitigating actions:

- Appropriate policies that are regularly reviewed and relevant training and awareness programmes to support policy implementation;
- Regular engagement with Government and Government agencies with respect to the Company's continued compliance;
- Monitoring of, and planning for, the impact of new legislation and regulations; and
- Collaborative engagement with external stakeholders.

Funding

Principal risk: failure to maintain adequate financial liquidity and/or comply with the Group's financial covenants.

Failure to maintain adequate financial liquidity and/or comply with the Group's financial covenants resulting in an inability to execute the Company's strategy effectively.

Potential impact:

- The loss of confidence by other stakeholders (for example, investors, clients, subcontractors and employees);
- Conducting existing business becomes increasingly challenging; and
- The loss of future business.

Mitigating actions:

- Effective cash forecasting and working capital management in combination with continued monitoring and prudent financial planning to ensure the Group's covenant compliance is maintained;
- Continued collaborative engagement with customers, suppliers, HMRC, pension scheme trustees, banks, lenders and sureties; and
- Through financial planning the Company ensures that appropriate levels of headroom under committed facilities and their financial covenants are in place to accommodate reasonable downside.

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022 (continued)

Maintaining an order book

Principal risk: a general market or sector downturn materially and adversely affects the Company's ability to secure work - UK Government spending, certainty and timing, including competitiveness of current market.

The Company's strategy sets out specific sectors that it wishes to trade within. The pipeline of work could be adversely affected by a general or sector downturn or cause a delay to projects going to site.

The Kier Group manages the impact of an economic downturn by building a strong order book. It concentrates on sectors with long-term frameworks and customers who prefer repeat procurement.

Potential impact:

- A failure of one or more of the Company's businesses;
- Increased competition for new work; and
- A decrease in stakeholder confidence in the Company.

Mitigating actions:

- Tailoring the Company's offer to meet customer needs; and
- Maintaining an efficient cost base.

Contract management of changes

Principal risk: failure to manage contracts effectively at each stage of a project's lifecycle. The business suffers a significant loss as a result of failing to follow the contract administration.

We start by ensuring we agree appropriate risk sharing with our clients and that this is adequately reflected in our contracts.

The Company has a large number of contracts in progress at any one time. Changes to contracts may lead to additional costs being incurred, delays and delayed receipt of cash.

Potential impact:

- A failure to manage project delivery and WIP and, ultimately, to meet the Company's financial targets;
- The Company incurring losses on individual contracts; and
- The Company failing to win new work because of reputational damage.

Mitigating actions:

- Tender peer review through the Kier Group Tender Risk Committee;
- Kier standards for contract amendments;
- Commercial Handbook explains how we manage change; and
- In built escalation to identify unacceptable levels of unagreed change.

People

Principal risk: failure to attract and retain key employees.

The Company's employees are critical to its performance. The Company needs to identify, retain and motivate people with the right skills, experience and behaviours and to identify tomorrow's leaders.

Potential impact:

- An adverse effect on the delivery of the Company's purpose and strategy;
- A lack of operational leadership, potentially leading to poor project performance; and
- An erosion of the Company's employer brand.

Mitigating actions:

- People strategy aligned to the medium term business plan;
- Diversity and Inclusion roadmap;
- Health, safety and wellbeing strategy;
- New leadership development offer;
- Listening to feedback from employees, including the use of engagement surveys; and
- Create an effective, inclusive work environment, through our Performance Excellence culture.

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022 (continued)

Supply chain

Principal risk: failure to maintain effective working relationships with the supply chain, supply chain insolvencies, capacity, pricing and inflation volatility.

The Company relies upon its partners for the delivery of its projects. Maintaining a close working relationship is a priority for the Company.

Potential impact:

- Unavailability of appropriate resources, impacting on project delivery and cost;
- Use of suppliers from outside the preferred supplier list increases cost and decreases quality; and
- Poor relationships lead to lack of confidence in the Company and adverse publicity.

Mitigating actions:

- We are updating the Kier subcontract to reflect the principles of the Construction Playbook;
- Place a Procurement Director directly into each business to deliver their supply chain management strategy; and
- Continue to meet prompt payment reporting requirements.

Strategy

Principal risk: Failure to deliver the Company's strategy.

The Company fails to deliver its strategy in terms of medium-term strategic objectives.

Potential impact:

- An adverse impact on the Company's net debt and liquidity;
- Failure to secure positions on national and regional frameworks; and
- Failure to meet stakeholders' expectations may lead to a decline in confidence in the Company.

Mitigating actions:

- Delivery of the balance sheet strategy;
- Delivery of our Performance Excellence culture;
- Continued focus on cash management; and
- Effective communication with stakeholders.

Cyber, IT security and data protection

Principal risk: The Company is exposed to cyber, IT security or data protection breaches.

Failure to keep up to date with modern attack landscape as well as protecting infrastructure from current conventional cyber/loss of data risks could cause outages, heavy reputational damage or financial fines.

Potential impact:

- Operational impact - e.g. delivery of projects, key systems outage, failure to win work, loss of confidential and/or other data;
- Financial impact - regulatory fines/prosecutions; and
- Reputational/brand damage.

Mitigating actions:

- Mandatory training and awareness for all staff;
- Vulnerabilities, access and incident management;
- ISO 27001 and cyber essentials accreditation;
- Information security cyber business continuity plan, system alerts, patching/updates and monitoring;
- Data loss prevention tools;
- Partner/suppliers follow Kier Group minimum standards re cyber, security and data; and
- Investment in IT infrastructure.

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022 (continued)

Climate change

Principal risk: Failure to identify and effectively manage climate change risks and opportunities.

The Company's operations are subject to physical and transition climate change risks. Whilst some climate resilience measures offer opportunities to innovate and expand/enhance capabilities.

Potential impact:

- Failure to meet client and investor expectations or regulatory requirements;
- Loss of opportunity to contribute to UK climate action policy and direction;
- Reputational damage; and
- Failure to prepare/plan for physical and financial impacts of more extreme and frequent weather conditions affecting operations and supply chain.

Mitigating actions:

- Implementing and delivering against the Kier Group's sustainability framework, 'Building for a Sustainable World.' With a focus on reviewing the next three years of the framework, particularly:
- Implementing each business stream's pathway to Net Zero Carbon. To ensure delivery of the Kier Group's overall pathway to Net Zero Carbon in line with Science-Based Targets
- Delivery against short, medium and long-term Zero Avoidable Waste Targets
- Implementation of our Sustainable Procurement strategy
- Maintain the Sustainability Leadership Forum ('SLF'); chaired by the Kier Group's Chief Executive and supported by our business stream SLFs that are led by a managing director or commercial director;
- Maintain the climate risk and opportunities register and net zero management system, to align with TCFD reporting and managing the financial risk of climate change;
- Embrace modern methods of construction and product innovation to deliver low-carbon solutions for climate resilience; and
- Work with our supply chain to help deliver our strategic objectives against waste, packaging, carbon and innovation.

Macroeconomic

Principal risk: Changes in macroeconomic conditions negatively impact on the Company, its workforce and its clients.

Examples may include political instability, rises in interest rates, energy prices and inflation/cost of living.

Potential impact:

- Reduced revenue or margins;
- Project affordability;
- Availability of labour and materials; and
- Increased supply chain insolvency risk.

Mitigating actions:

- Various market insight and intelligence relating to pricing and lead times;
- Kier risk management framework;
- Supply chain management;
- Kier Operating Framework and Performance Excellence processes;
- Kier Commercial Standards; and
- Use of financial derivative instruments to hedge exposure to fluctuations in interest and exchange rates.

Emerging risks and opportunities

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

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

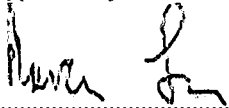
Kier Construction Limited

Strategic Report for the Year Ended 30 June 2022 (continued)

Corporate responsibility

Please see the Environmental, Social and Governance report 'Building for a sustainable world' in the Kier Group plc 2022 Annual Report (pages 42 to 65 inclusive), which is available at www.kier.co.uk, for details of the Group's corporate responsibility activities. As a member of the Group, the Company has participated in these activities.

Approved by the Board on **28 November 2022** and signed on its behalf by:



.....
M F Jones
Director

Kier Construction Limited

Directors' Report for the Year Ended 30 June 2022

The directors of Kier Construction Limited (the "Company") present their report and the audited financial statements for the year ended 30 June 2022.

Directors of the company

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

L J Cummins

G C Garvie

M F Jones

B C Mendonca (appointed 12 August 2021)

Corporate governance

The Group's parent company, Kier Group plc, as a premium listed company, is subject to the UK Corporate Governance Code (2018) (the 'Code'). Pages 92 to 134 (inclusive) of the 2022 Annual Report of Kier Group plc (available at www.kier.co.uk) explains how Kier Group plc applied the principles of, and complied with the provisions of the Code during the year.

Kier's Operating Framework (the 'OF') sets out the governance structure within which the Group operates. The OF summarises the core business processes which apply throughout the Group and contains the Group's delegated authorities. In addition, it sets out the Group's purpose and its values – trusted, collaborative and focused.

The Company, as a member of the Group, has adopted the OF as its corporate governance code. The Company, as a member of the Group, has not adopted the Code or any other corporate governance codes as the Board does not regard these as being relevant to a subsidiary company. The OF contains the governance arrangements of the Company and copies of relevant Group governance documents can be found at: <https://www.kier.co.uk/investors/corporate-governance/group-policies/>.

Financial instruments

Objectives and policies

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

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

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

Kier Construction Limited

Directors' Report for the Year Ended 30 June 2022 (continued)

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

The Company relies on Kier Group borrowing and bonding facilities. Cash flow is forecast regularly to provide up-to-date and accurate information on the Company's current cash position and its future requirements. The Kier Group has strong, long-term relationships with the providers of its bonding lines and has an in-house team which monitors headroom and advises on bond terms and conditions.

Employee involvement

For information on the Group's activities with regards to employee engagement, which include the employees of the Company, please see the Employee wellbeing and engagement section on pages 60 to 64 of the Environmental, Social and Governance Report in the 2022 Annual Report of Kier Group plc (available at www.kier.co.uk).

Employment of disabled persons

Kier believes that everyone deserves to have their voice heard and that the different experiences people bring make Kier a better business. For information on the Group's progress with regards to Equality & Diversity, please see the Equality & Diversity section on pages 56 and 57 of the 2022 Annual Report of Kier Group plc (available at www.kier.co.uk).

Engagement with suppliers, customers and others

Information on the Group's engagement with suppliers, customers and others during the financial year can be found on pages 32 to 35, 65 and 90 of the 2022 Annual Report of Kier Group plc (available at www.kier.co.uk).

Future Developments

The Company is expected to perform strongly, with over 80% of the forecast revenue for FY2023 being secured at the time of approval of these financial statements. Margins and cash generation are expected to improve as the Company maintains its prudent risk management process. The division's regional spread of projects and standing on key frameworks ensures that it is well positioned to take advantage of public and private sector opportunities that arise across the UK.

Dividends

No dividends (2021: £nil) were approved in the year. The directors do not recommend a final dividend in respect of the financial year ended 30 June 2022.

Going concern

The financial statements have been prepared on a going concern basis. The Directors have reviewed budgets and future forecasts and have satisfied themselves that the Company has sufficient financial and liquid resources to continue to operate for a period of at least 12 months from the date these financial statements are signed. Future forecasts indicate that the Company can generate future cash flows, as such the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In addition, the Directors have received confirmation that Kier Group plc intends to provide continuous financial support to the Company for a period of not less than one year from the date of signing of these financial statements. As a result, the Directors are satisfied that the Company has adequate resources to meet its obligations as they fall due for a period of at least 12 months from the date of approving these financial statements and, for this reason, they continue to adopt the going concern basis in preparing these financial statements.

Kier Construction Limited

Directors' Report for the Year Ended 30 June 2022 (continued)

Directors' liability insurance

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

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

Statement of directors' responsibilities in respect of the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

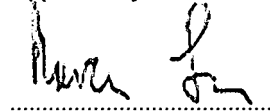
Kier Construction Limited

Directors' Report for the Year Ended 30 June 2022 (continued)

Reappointment of independent auditors

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

Approved by the Board on 28 November 2022 and signed on its behalf by:



.....
M F Jones
Director

Independent auditors' report to the members of Kier Construction Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kier Construction Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 June 2022; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 June 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK pensions and employment legislation, data protection legislation, the Health and Safety Executive legislation and equivalent local laws, Fire Safety Act 2021, anti-bribery and corruption legislation, and environmental legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and taxation legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the manipulation of financial statement line items through manual journal postings and management bias in long-term contracting accounting estimates. Audit procedures performed by the engagement team included:

- Discussions with management, Internal Audit and internal legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud
- Assessment of matters reported on the Group's whistleblowing helpline and the results of management's investigation of such matters;
- Challenging assumptions and judgements made by management in the estimates involved in accounting for long-term contracts;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations, unusual words and unusual users;
- Review of board minutes and details of legal expenses incurred in the year; and
- Reviewing the financial statement disclosures and agreeing to underlying supporting documentation.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

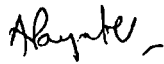
Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
28 November 2022

Kier Construction Limited

Income Statement for the Year Ended 30 June 2022

	Note	2022 £000	2021 £000
Revenue	4	1,150,199	1,453,191
Cost of sales		<u>(1,085,038)</u>	<u>(1,371,323)</u>
Gross profit		65,161	81,868
Administrative expenses		<u>(63,895)</u>	<u>(78,072)</u>
Operating profit	5	<u>1,266</u>	<u>3,796</u>
Finance income	7	12,144	12,860
Finance costs	8	<u>(5,523)</u>	<u>(5,435)</u>
Net finance income		<u>6,621</u>	<u>7,425</u>
Profit before tax		7,887	11,221
Income tax (expense)/credit	12	<u>(2,178)</u>	<u>4,169</u>
Profit for the financial year		<u><u>5,709</u></u>	<u><u>15,390</u></u>
Supplementary information			
Adjusted ¹ operating profit		33,520	31,555
Adjusted ¹ profit before tax		40,141	38,980

The above results were derived from continuing operations.

¹ Reference to 'adjusted' excludes adjusting items, see notes 2 and 6.

Kier Construction Limited

Statement of Comprehensive Income for the Year Ended 30 June 2022

	2022 £000	2021 £000
Profit for the financial year	<u>5,709</u>	<u>15,390</u>
Total comprehensive income for the year	<u><u>5,709</u></u>	<u><u>15,390</u></u>

The notes on pages 22 to 49 form an integral part of these financial statements.

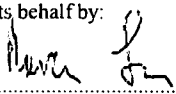
Kier Construction Limited

(Registration number: 02099533)

Statement of Financial Position as at 30 June 2022

	Note	2022 £000	2021 £000
Assets			
Fixed assets			
Intangible assets	13	-	83
Property, plant and equipment	14	4,295	4,419
Right of use assets	15	40,625	45,168
Investments	16	974	974
Mobilisation costs	4	6,609	1,613
		<u>52,503</u>	<u>52,257</u>
Current assets			
Contract assets	4	139,622	141,711
Trade and other receivables	17	99,365	100,177
Deferred tax assets	12	18,003	17,107
Cash and cash equivalents	18	437,653	457,006
		<u>694,643</u>	<u>716,001</u>
Total assets		<u>747,146</u>	<u>768,258</u>
Equity and liabilities			
Current liabilities			
Trade and other payables	19	459,317	499,137
Contract liabilities	4	24,850	24,280
Overdraft	18	3,488	-
Lease liabilities	20	5,971	8,261
Income tax liability		11,235	12,952
Provisions	21	10,299	273
		<u>515,160</u>	<u>544,903</u>
Non-current liabilities			
Lease liabilities	20	37,790	38,855
Trade and other payables	19	103,197	101,938
		<u>140,987</u>	<u>140,793</u>
Total liabilities		<u>656,147</u>	<u>685,696</u>
Equity			
Called up share capital	22	25,000	25,000
Revaluation reserve		318	318
Retained earnings		65,681	57,244
		<u>90,999</u>	<u>82,562</u>
Total equity and liabilities		<u>747,146</u>	<u>768,258</u>

The financial statements on pages 18 to 49 were approved by the Board of Directors on 28 November 2022 and signed on its behalf by:



M F Jones, Director

The notes on pages 22 to 49 form an integral part of these financial statements.

Kier Construction Limited

Statement of Changes in Equity for the Year Ended 30 June 2022

	Share capital £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 July 2020	25,000	318	39,881	65,199
Profit for the year	-	-	15,390	15,390
Total comprehensive income	-	-	15,390	15,390
Share based payment transactions	-	-	1,973	1,973
At 30 June 2021	25,000	318	57,244	82,562
	Share capital £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 July 2021	25,000	318	57,244	82,562
Profit for the year	-	-	5,709	5,709
Total comprehensive income	-	-	5,709	5,709
Share based payment transactions	-	-	2,728	2,728
At 30 June 2022	25,000	318	65,681	90,999

The notes on pages 22 to 49 form an integral part of these financial statements.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022

1 General information

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

The address of its registered office is:

2nd Floor
Optimum House
Clippers Quay
Salford
M50 3XP

2 Accounting policies

Summary of significant accounting policies and key accounting estimates

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

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 ("FRS 101") Reduced Disclosure Framework and with the Companies Act 2006 as applicable to companies using FRS 101.

The financial statements have been prepared on the historical cost basis.

The presentation currency used is GB Pound Sterling and figures are quoted to the nearest £1,000.

Summary of disclosure exemptions

In these financial statements, the company has taken advantage of the exemptions available under FRS 101 in respect of the following disclosures:

- Paragraphs 45(b) and 46 to 52 of IFRS 2 - 'Share-based payments' (how the fair value of goods/services received or equity instruments granted was determined and details of the number and weighted average exercise prices of share options).
- IFRS 7 - 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13 - 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 - 'Revenue from Contracts with Customers' (disaggregation of revenue, significant changes in contract assets and liabilities, details on transaction price allocation, timing of the satisfaction of performance obligations and significant judgements made in the application of IFRS 15).
- The requirements of paragraph 52 [lessee], the second sentence of paragraph 89, and paragraphs 90, 91 and 93 [lessor] of IFRS 16 - 'Leases' (lessee disclosures and lessor disclosures in relation to finance leases and lease income on operating leases).

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

- Paragraph 38 of IAS 1 - 'Presentation of financial statements' (comparative information requirements in respect of):
 - paragraph 79(a)(iv) of IAS 1
(reconciliation of number of shares at the beginning and end of the period)
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'
(reconciliations between the carrying amount at the beginning and end of the period)
 - paragraph 118(e) of IAS 38, 'Intangible assets'
(reconciliations between the carrying amount at the beginning and end of the period)
- IAS 7 - 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8 - 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24 - 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures' (to disclose related party transactions entered into between two or more members of a group).

Going concern

The financial statements have been prepared on a going concern basis. The Directors have reviewed budgets and future forecasts and have satisfied themselves that the Company has sufficient financial and liquid resources to continue to operate for a period of at least 12 months from the date these financial statements are signed. Future forecasts indicate that the Company can generate future cash flows, as such the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future.

In addition, the Directors have received confirmation that Kier Group plc intends to provide continuous financial support to the Company for a period of not less than one year from the date of signing of these financial statements. As a result, the Directors are satisfied that the Company has adequate resources to meet its obligations as they fall due for a period of at least 12 months from the date of approving these financial statements and, for this reason, they continue to adopt the going concern basis in preparing these financial statements.

Exemption from preparing group financial statements

The financial statements contain information about Kier Construction Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Kier Group plc, a company incorporated in England and Wales.

Changes in accounting policy

The following amendments to standards are effective for the financial year ended 30 June 2022 onwards:

- Amendments to IFRS 4, IFRS 7, IFRS 9 and IFRS 16 - interest rate benchmark reform - Phase 2;
- Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9; and
- Amendments to IFRS 16 Leases - COVID-19 related rent concessions - extension of the practical expedient.

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

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Revenue and profit recognition

Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts. It also includes the Company's proportion of work carried out under jointly controlled operations.

The general principles for revenue and profit recognition across the Company are as follows:

- Provision is made for any unavoidable future net losses arising from contract obligations, as soon as they become apparent;
- Additional consideration for contract modifications (variations) is only included in revenue (or the forecast contract out-turn) if the scope of the modification has been approved by the customer. If the scope of the modification has been approved but the parties have not yet determined the corresponding change in the contract price, an estimate of the change to the transaction price is made and included in calculating revenue to the extent that any increase in price is highly probable not to reverse;
- Contract modifications are treated as separate contracts if the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the Company's stand-alone selling prices of the additional promised goods or services and any appropriate adjustments to that price to reflect the particular circumstances of the particular contract;
- Variable consideration amounts (gain-share amounts, KPI bonuses, milestone bonuses, compensation event claims, etc.) are included in revenue (or forecasts to completion) only to the extent that it is highly probable that a significant reversal of the amount in cumulative revenue recognised will not occur;
- Refund liabilities (liquidated damages, pain-share amounts, KPI penalties, etc.) are accounted for as a reduction in revenue (or in forecasting contract out-turns) as soon as it is expected that the Company will be required to refund some or all of the consideration it has received from the customer;
- Where revenue that has been recognised is subsequently determined not to be recoverable due to the inability of a customer to meet its obligations, these amounts are charged to administrative expenses as a credit loss;
- Claims against third-parties (such as insurance recoveries and claims for cost reimbursements) outside of normal supplier price adjustments are recognised only when the realisation of income is virtually certain. The associated income is accounted for as reduction in costs rather than revenue; and
- Contract mobilisation is not considered to be a separate performance obligation in most situations, as the customer receives little or no benefit from mobilisation activities. Any consideration received from the customer in relation to the mobilisation phase of a contract is deferred and recognised as additional revenue relating to the performance obligations in the contract that benefit the customer.

If the timing of payments agreed with the customer provides the Company or the customer with a significant benefit of financing the transfer of goods or services, the amount of consideration is adjusted for the effects of the time value of money. The Company does not make an adjustment for the time value of money in the following circumstances:

- When the Company expects, at contract inception, that the period between the entity transferring a good or service and the customer paying for it will be one year or less; or
- Where the timing of the payments is for commercial rather than financing reasons, e.g. construction contract retentions.

Revenue is recognised on construction services over time as the benefit is transferred to the customer. The Company uses an input method to measure progress. The percentage of completion is measured using cost incurred to date as a proportion of the estimated full costs of completing the contract and is applied to the total expected contract revenue to determine the revenue to be recognised to date.

The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Consistent contract review procedures are in place in respect of contract forecasting.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Joint arrangements

A joint arrangement is a contractual arrangement whereby the Company undertakes an economic activity that is subject to joint control with third parties.

From time to time the Company undertakes contracts jointly with other parties. These fall under the category of joint operations as defined by IFRS 11. In accordance with IFRS 11, the Company accounts for its own share of sales, profits, assets, liabilities and cash flows measured according to the terms of the agreements.

Finance income and costs policy

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

Notional interest payable, representing the unwinding of the discount on long-term liabilities, is charged to finance costs.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Property, plant and equipment

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

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

Depreciation

Land is not depreciated. Freehold buildings and other assets are depreciated in order to write off the costs less residual value over the useful economic lives of the assets. The rates of depreciation are as follows:

Asset class	Depreciation method and rate
Land and buildings	2% per annum
Land and buildings (leasehold)	over the term of the lease
Furniture, fittings & equipment	10% to 50% per annum

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Intangible assets

Separately acquired trademarks and licences are shown at historical cost.

Trademarks, licences (including software) and customer-related intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Trademarks, licences and customer-related intangible assets have a finite useful life and are carried at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation

Amortisation is provided on intangible assets so as to write off the cost, less any estimated residual value, over their expected useful economic life.

Asset class

Contract rights

Amortisation method and rate

Over the remaining contract life

Investments

Investments in subsidiaries are stated at cost less any provision for impairment.

Mobilisation Costs

Mobilisation costs incurred in respect of a specific contract that has been won or an anticipated contract that is expected to be won (e.g. when the Company has secured preferred bidder status) are carried forward in the balance sheet as capitalised mobilisation costs if: the costs generate or enhance resources of the Company that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and the costs are expected to be recovered (i.e. the contract is expected to be sufficiently profitable to cover the mobilisation costs).

The vast majority of contracts incurring significant mobilisation costs are contracts that exceed 12 months in duration. The Company's policy is therefore to show its capitalised mobilisation costs as a non-current asset, amortised over the expected contract duration.

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Most Kier Group companies do not have any recent independent third-party financing to use as a starting point for the incremental borrowing rate. Therefore, the Company uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk, lease term, country, currency and security.

The Company is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Any restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The Company has elected to use the following recognition exemptions, as permitted by the standard:

- Leases of low-value items - The Company has defined low value items as assets that have a value when new of less than c£5,000. Low value items comprise IT equipment and small items of plant.
- Short-term leases - Leases with a lease term of less than 12 months at inception.

For leases in the above categories, a lease liability or right-of-use asset is not recognised. Instead, the Company recognises the related lease payments as an expense on a straight-line basis over the lease term.

Contracts may contain both lease and non-lease components. The Company allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices.

Leased properties that meet the definition of investment properties are presented within 'investment properties' rather than 'right-of-use assets' on the balance sheet.

Share capital

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

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at the date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Defined contribution pension obligation

The Company is a member of the Kier Group Pension Scheme a section of which provides benefits based on final pensionable pay. The total pension liability is recognised in Kier Limited.

Share based payments

The Parent company Kier Group plc issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these shares at the date of grant is expressed on a straight line basis over the vesting period, based on the estimate of shares that will eventually vest.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. An assessment of whether a financial asset is impaired is made at least at each reporting date.

The principal financial assets and liabilities of the Company are as follows:

(a) Trade receivables and trade payables

The Company has allocated receivables and payables due within 12 months of the balance sheet date to current with the remainder included in non-current.

A trade receivable is recognised when the Company has a right to consideration that is unconditional (subject only to the passage of time before payment is due). Trade receivables do not carry interest and are stated at their initial cost reduced by appropriate allowances for expected credit losses.

Trade payables on normal terms are not interest bearing and are stated at their nominal value. Trade payables on extended terms, particularly in respect of land purchases, are discounted and recorded at their present value.

Amounts owing under supply chain finance arrangements are included within trade payables rather than bank debt. The purpose of supply chain finance is purely to grant subcontractors and suppliers access to credit and improve their cashflows. There have been no changes to the underlying terms of the supply chain finance arrangements.

The designation in trade payables is due to the assignment of invoice rather than a novation, the Company acting as an agent with fees related to supply chain finance being borne by the supplier and the final payment date to the bank being set by the Company with interest accrued for any late payments.

(b) Cash and cash equivalents

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

(c) Bank and other borrowings

Interest-bearing bank and other borrowings are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

Classification and measurement

Financial instruments are classified at inception into one of the following categories, which then determine the subsequent measurement methodology:-

Financial assets are classified into one of the following three categories:-

- financial assets at amortised cost;
- financial assets at fair value through other comprehensive income (FVTOCI); or
- financial assets at fair value through the profit or loss (FVTPL).

Financial liabilities are classified into one of the following two categories:-

- financial liabilities at amortised cost; or
- financial liabilities at fair value through the profit or loss (FVTPL).

The classification and the basis for measurement are subject to the company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as detailed below:-

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Financial assets at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:-

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If either of the above two criteria is not met, the financial assets are classified and measured at fair value through the profit or loss (FVTPL).

If a financial asset meets the amortised cost criteria, the company may choose to designate the financial asset at FVTPL. Such an election is irrevocable and applicable only if the FVTPL classification significantly reduces a measurement or recognition inconsistency.

Financial assets at fair value through other comprehensive income (FVTOCI)

A financial asset is measured at FVTOCI only if it meets both of the following conditions and is not designated as at FVTPL:-

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investments that is not held for trading, the company may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

If an equity investment is designated as FVTOCI, all gains and losses, except for dividend income, are recognised in other comprehensive income and are not subsequently included in the statement of income.

Financial assets at fair value through the profit or loss (FVTPL)

Financial assets not otherwise classified above are classified and measured as FVTPL.

Financial liabilities at amortised cost

All financial liabilities, other than those classified as financial liabilities at FVTPL, are measured at amortised cost using the effective interest rate method.

Financial liabilities at fair value through the profit or loss

Financial liabilities not measured at amortised cost are classified and measured at FVTPL. This classification includes derivative liabilities.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

The company recognises loss allowances for expected credit losses (ECL) on financial instruments that are not measured at FVTPL, namely:

- Financial assets that are debt instruments
- Accounts and other receivables
- Financial guarantee contracts issued; and
- Loan commitments issued.

The company classifies its financial instruments into stage 1, stage 2 and stage 3, based on the applied impairment methodology, as described below:

Stage 1: for financial instruments where there has not been a significant increase in credit risk since initial recognition and that are not credit-impaired on origination, the company recognises an allowance based on the 12-month ECL.

Stage 2: for financial instruments where there has been a significant increase in credit risk since initial recognition but they are not credit-impaired, the company recognises an allowance for the lifetime ECL.

Stage 3: for credit-impaired financial instruments, the company recognises the lifetime ECL.

The company measures loss allowances at an amount equal to the lifetime ECL, except for the following, for which they are measured as a 12-month ECL:

- debt securities that are determined to have a low credit risk (equivalent to investment grade rating) at the reporting date; and
- other financial instruments on which the credit risk has not increased significantly since their initial recognition.

The company considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'.

A 12-month ECL is the portion of the ECL that results from default events on a financial instrument that are probable within 12 months from the reporting date.

Provisions for credit-impairment are recognised in the statement of income and are reflected in accumulated provision balances against each relevant financial instruments balance.

Evidence that the financial asset is credit-impaired include the following;

- Significant financial difficulties of the borrower or issuer;
- A breach of contract such as default or past due event;
- The restructuring of the loan or advance by the company on terms that the company would not consider otherwise;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for the security because of financial difficulties; or
- There is other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the company, or economic conditions that correlate with defaults in the company.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

For trade receivables, the company applies the simplified approach, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to unbilled work in progress and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The company has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2022 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The company has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Derecognition

Financial assets

The company derecognises a financial asset when;

- the contractual rights to the cash flows from the financial asset expire,
- it transfers the right to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred; or
- the company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the sum of the consideration received is recognised as a gain or loss in the profit or loss.

Any cumulative gain or loss recognised in OCI in respect of equity investment securities designated as FVTOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the company is recognised as a separate asset or liability.

Financial liabilities

The company derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

2 Accounting policies (continued)

Adjusting items

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance.

The Directors have considered the requirements of applicable accounting standards, along with additional guidance around alternative performance measures (APMs) and believe it is appropriate to inform users regarding various items and disclose those items which are deemed one-off, material or non-recurring in size or nature, in alignment with the Company's internal management reporting. As such, the Company is disclosing as supplementary information an 'Adjusted Profit' APM which is reconciled to statutory profit in the notes to the financial statements and is consistent with the Group's IFRS 8 segmental reporting.

Separate presentation of these items is intended to enhance understanding of the financial performance of the Company in the particular year under review and the extent to which results are influenced by material unusual and/or non-recurring items.

The directors exercise judgement in determining the classification of certain items as adjusting using quantitative and qualitative factors. In assessing whether an item is an adjusting item, the directors give consideration, both individually and collectively, as to an item's size, the specific circumstances which have led to the item arising and if the item is likely to recur, or whether the matter forms part of a group of similar items.

A full reconciliation from statutory numbers to adjusted profit measures has been presented in note 6 on page 35.

Contract assets and liabilities

When the Company transfers goods or services to a customer before the customer pays consideration or before payment is due, the amount of revenue associated with the transfer of goods or services is accrued and presented as a contract asset in the balance sheet (excluding any amounts presented as a receivable). A contract asset represents the Company's right to consideration in exchange for goods or services that the Company has transferred to a customer.

If a customer pays consideration, or the Company has a right to an amount of consideration that is unconditional (i.e. a receivable), before the Company transfers a good or service to the customer, the amount is presented as a contract liability on the balance sheet. A contract liability represents the Company's obligation to transfer goods or services to a customer for which the entity has received consideration (or an amount of consideration is due) from the customer.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

3 Critical accounting judgements and key sources of estimation uncertainty

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

a) Revenue and profit recognition

The estimation techniques used for revenue and profit recognition in respect of construction contracts require forecasts to be made of the outcome of long-term contracts which require assessments and judgements to be made on the recovery of pre-contract costs, changes in the scope of work, contract programmes, maintenance and defects liabilities and changes in costs.

The key judgements and estimates relating to determining the revenue and profit of material contracts are:

- costs to complete
- achieving the planned build programme
- recoverability of claims and variations in accordance with IFRS 15
- each contract is treated on its merits and subject to a regular review of the revenue and costs to complete that contract, determined by a combination of management judgement and external professional assistance, backed up by judgements papers for the contracts that a material impact on the income statement.

b) Fire and cladding

The Company has undertaken a review of all of its current and legacy constructed buildings where it has used cladding solutions and continues to assess the action required in line with the latest updates to Government guidance, as it applies, to multi-storey and multi-occupied residential buildings. The buildings, including the cladding works, were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of completion.

We recognise that Government guidance on the retrospective review of building materials continues to evolve. In preparing the financial statements, currently available information has been considered, including the current best estimate of the extent and future costs of work required, based on the reviews and physical inspections undertaken.

Where an obligation has been established and a reliable estimate of the costs to rectify is available, a provision has been made (see note 21). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses or if Government legislation and regulation further evolves.

Adjusting items as critical judgement

Adjusting items are items of financial performance which the company believes should be separately presented to assist in understanding the financial performance achieved by the company in accordance with the accounting policy set out on page 35. Determining whether an item is classified as an adjusting item requires significant judgement.

Total adjusting items of £32,254,000 were charged to the income statement in respect of continuing operations for the year ended 30 June 2022 (2021: £27,750,500). The items that comprise this are set out in note 6 together with an explanation of their nature and consideration points as to why the Directors believe these to be adjusting items.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

4 Revenue

The analysis of the Company's revenue for the year from continuing operations is as follows:

	2022	2021
	£000	£000
Revenue from construction contracts	<u>1,150,199</u>	<u>1,453,191</u>

Non-current assets and liabilities

	2022	2021
	£000	£000
Mobilisation costs	<u>6,609</u>	<u>1,613</u>

Current assets and liabilities

	2022	2021
	£000	£000
Contract assets	139,622	141,711
Contract liabilities	<u>(24,850)</u>	<u>(24,280)</u>
Net unbilled contract assets	<u>114,772</u>	<u>117,431</u>

Contract assets arise where goods or services are transferred to the customer before the customer pays consideration, or before payment is due. When we have an unconditional right to consideration for the goods or services supplied and performance obligations delivered the amounts due are recognised as trade receivables. Contract liabilities (deposits from customers) relate to consideration received when we still have an obligation to deliver goods or services for that consideration.

Mobilisation costs relate to a number of successful framework agreement bids carried out in the year. Where costs are incurred regardless of whether a contract is won or lost, they are recognised immediately as an expense in the income statement.

5 Operating profit

Arrived at after charging/(crediting)

	2022	2021
	£000	£000
Depreciation expense	212	443
Depreciation on right of use assets - plant and equipment	3,886	6,904
Depreciation on right of use assets - land and buildings	4,149	4,263
Depreciation on right of use assets - Motor vehicles	1,562	1,959
Amortisation of intangible contract	83	109
Research and development credit	(8,357)	(3,258)
Profit on disposal of property, plant and equipment	(412)	(599)
Share based payment transactions	<u>2,728</u>	<u>1,973</u>

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

6 Adjusting items

	Operating profit		Profit before tax	
	2022	2021	2022	2021
	£000	£000	£000	£000
Reported profit	1,266	3,796	7,887	11,221
Restructure of Regional Building business	22,310	23,557	22,310	23,557
Redundancy and people related costs	2,123	1,112	2,123	1,112
Legal compliance	7,738	2,981	7,738	2,981
Amortisation of intangible assets	83	109	83	109
Adjusted profit	<u>33,520</u>	<u>31,555</u>	<u>40,141</u>	<u>38,980</u>

The Company has completed its strategic restructuring of its Regional Southern Build business. The current year costs of £22,310,000 (2021: £23,557,000) predominantly relate to five remaining projects. These projects are due to complete in FY23 although no additional cost is expected to be incurred. These costs consist of charges in respect of the recoverability of assets and increased project costs due to settlements and delays, which have been directly impacted by this restructuring programme and represent an extension of costs incurred in the prior years.

The Company incurred costs of £2,123,000 (2021: £1,112,000) in respect of roles made redundant as a result of cost saving programmes and from strategic decisions taken to reduce headcount in the Construction operating division following the anticipated reduction in revenues.

The Company has incurred £7,738,000 (2021: £2,981,000) of costs in complying with the updated fire compliance regulations. Of these amounts, £5,200,000 (2021: £Nil) are provided for at year end. This is considered to be an adjusting item since it relates to a specific and significant legal issue which is not considered to be reflective of the underlying performance of the business. The remaining charge relates to a settlement made in respect of an out of period claim that was notified during the year and so was treated as an adjusting item.

See note 13 for further information on the amortisation of intangible contract rights.

These adjusting items and amortisation of acquired intangible assets have been separately identified to enable the users of the financial statements to gain a better understanding of underlying profitability of the business.

7 Finance income

	2022	2021
	£000	£000
Interest received from group undertakings	<u>12,144</u>	<u>12,860</u>

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

8 Finance costs

	2022	2021
	£000	£000
Interest paid to group undertakings	3,712	3,400
Interest expense on leases	<u>1,811</u>	<u>2,035</u>
	<u><u>5,523</u></u>	<u><u>5,435</u></u>

9 Staff costs

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

	2022	2021
	£000	£000
Wages and salaries	135,664	132,910
Social security costs	14,278	13,351
Other Pension Costs	<u>6,945</u>	<u>6,889</u>
	<u><u>156,887</u></u>	<u><u>153,150</u></u>

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

	2022	2021
	No.	No.
Average number of persons employed by the Company during the year, including directors, was	<u>1,911</u>	<u>2,011</u>

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2022	2021
	£000	£000
Salary and bonus	1,254	1,292
Pension	110	107
Benefits	<u>41</u>	<u>32</u>
	<u><u>1,405</u></u>	<u><u>1,431</u></u>

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

10 Directors' remuneration (continued)

In respect of the highest paid director:

	2022	2021
	£000	£000
Salary and bonus	764	805
Pension	67	65
Benefits	22	16
	853	886

Two directors were remunerated through other Kier Group companies; any apportionment of their remuneration by time was immaterial. Their remuneration is disclosed in those entities.

11 Auditors' remuneration

The auditors' remuneration for the Company for the year was settled on its behalf by Kier Limited (a member of the Kier Group) and was not recharged to the Company.

12 Income tax expense/(credit)

Tax expense/(credit) in the income statement

	2022	2021
	£000	£000
Current taxation		
UK corporation tax	2,361	2,873
UK corporation tax adjustment to prior periods	713	34
	3,074	2,907
Deferred taxation		
Arising from origination and reversal of temporary differences	(334)	(416)
Arising from changes in tax rates and laws	45	(3,119)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	(607)	(3,541)
Total deferred taxation	(896)	(7,076)
Tax expense/(credit) in the income statement	2,178	(4,169)

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

12 Income tax expense/(credit) (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2021 - lower than the standard rate of corporation tax in the UK) of 19% (2021 - 19%).

The differences are reconciled below:

	2022	2021
	£000	£000
Profit before tax	<u>7,887</u>	<u>11,221</u>
Corporation tax at standard rate	1,498	2,132
Increase/(decrease) in current tax from adjustment for prior periods	106	(3,507)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	529	325
Deferred tax expense/(credit) relating to changes in tax rates or laws	<u>45</u>	<u>(3,119)</u>
Total tax charge/(credit)	<u>2,178</u>	<u>(4,169)</u>

The deferred tax balance as at the year end has been recognised at 25% (2021: 25%), which is the enacted corporation tax rate effective from 1 April 2023.

Deferred tax

Deferred tax movement during the year:

	At 1 July 2021	Recognised in income	At 30 June 2022
	£000	£000	£000
Accelerated tax depreciation	733	(58)	675
Tax losses carry-forwards	11,783	(388)	11,395
Other items	<u>4,591</u>	<u>1,342</u>	<u>5,933</u>
Net tax assets	<u>17,107</u>	<u>896</u>	<u>18,003</u>

Deferred tax movement during the prior year:

	At 1 July 2020	Recognised in income	At 30 June 2021
	£000	£000	£000
Accelerated tax depreciation	58	675	733
Tax losses carry-forwards	6,262	5,521	11,783
Other items	<u>3,711</u>	<u>880</u>	<u>4,591</u>
	<u>10,031</u>	<u>7,076</u>	<u>17,107</u>

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

12 Income tax expense/(credit) (continued)

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxes relate to the same fiscal authority.

Having reviewed detailed profit forecasts, the directors consider that there is sufficient certainty of future profits to enable the recoverability of the deferred tax asset in full and therefore the deferred tax asset has been recognised in the financial statements.

13 Intangible assets

	Intangible contract rights £000	Total £000
Cost		
At 1 July 2021	983	983
At 30 June 2022	983	983
Accumulated Amortisation		
At 1 July 2021	900	900
Amortisation charge	83	83
At 30 June 2022	983	983
Carrying amount		
At 30 June 2022	-	-
At 30 June 2021	83	83

The intangible assets are contracts rights acquired with Aberdeen-based construction operations of Stewart Milne Group on 27 April 2012. It has now been fully amortised.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

14 Property, plant and equipment

	Land and buildings £000	Furniture, fittings and equipment £000	Total £000
Cost			
At 30 June 2021	4,934	1,958	6,892
At 1 July 2021	4,934	1,958	6,892
Additions	134	157	291
Disposals	(286)	-	(286)
Transfers	-	(88)	(88)
At 30 June 2022	4,782	2,027	6,809
Accumulated depreciation			
At 30 June 2021	1,035	1,438	2,473
At 1 July 2021	1,035	1,438	2,473
Charge for the year	108	104	212
Eliminated on disposal	(83)	-	(83)
Transfers	-	(88)	(88)
At 30 June 2022	1,060	1,454	2,514
Carrying amount			
At 30 June 2022	3,722	573	4,295
At 30 June 2021	3,899	520	4,419

Included within the net book value of land and buildings above is £3,722,000 (2021 - £3,899,000) in respect of freehold land and buildings, and £Nil (2021 - £Nil) in respect of long leasehold land and buildings.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

15 Right of use assets

	Land and buildings £000	Motor vehicles £000	Plant and equipment £000	Total £000
Carrying amount				
At 1 July 2020	41,760	2,619	9,355	53,734
Additions	1,057	2,804	5,118	8,979
Disposals	(8)	(527)	(3,884)	(4,419)
Depreciation charge for the year	<u>(4,263)</u>	<u>(1,959)</u>	<u>(6,904)</u>	<u>(13,126)</u>
At 30 June 2021	38,546	2,937	3,685	45,168
Additions	1,121	2,420	3,614	7,155
Disposals	(541)	(367)	(1,193)	(2,101)
Depreciation charge for the year	<u>(4,149)</u>	<u>(1,562)</u>	<u>(3,886)</u>	<u>(9,597)</u>
At 30 June 2022	<u>34,977</u>	<u>3,428</u>	<u>2,220</u>	<u>40,625</u>

16 Investments

Subsidiaries and joint ventures	£000
Cost or valuation	
At 1 July 2021	<u>974</u>
At 30 June 2022	<u>974</u>
Carrying amount	
At 1 July 2021	<u>974</u>
At 30 June 2022	<u>974</u>

Details of the subsidiaries and joint ventures as at 30 June 2022 are as follows:

Name of subsidiary	Principal activity	Registered office ¹	Proportion of ownership interest and voting rights held	
			2022	2021
Dudley Coles Limited	Dormant	1	100%	100%
Kier Midlands Limited	Dormant	1	100%	100%
Kier South East Limited	Dormant	1	100%	100%
Kier Southern Limited	Dormant	1	100%	100%
William Moss Group Limited	Dormant	1	100%	100%

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

16 Investments (continued)

Name of subsidiary	Principal activity	Registered office ¹	Proportion of ownership interest and voting rights held	
			2022	2021
William Moss Construction Limited (In Liquidation)	Dormant	2	100%	100%
Wallis Limited	Dormant	1	100%	100%
Wallis Western Limited	Dormant	1	100%	100%

¹see list of registered offices below

Registered offices

1. 2nd Floor, Optimum House, Clippers Quay, Salford, M50 3XP
2. 1 More London Place, London, SE1 2AF.

The Company's proportion of ownership interest in all of the subsidiaries listed above is in respect of the Ordinary share class of that subsidiary. None of the subsidiaries listed above have any other share classes in issue.

Joint ventures

Details of the joint ventures as at 30 June 2022 are as follows:

Name of joint venture	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2022	2021
Kier Graham Defence Limited	Construction	2nd Floor, Optimum House, Clippers Quay, Salford, M50 3XP	50%	50%

Joint operations

Hercules

The Company has a material joint operation, Hercules, in which it holds a 50% share in the ownership (2021: 50%). The activities undertaken by this operation are a joint operation between Kier Construction Limited, Kier Living Limited a fellow Kier group company, and Balfour Beatty. The trading address of the joint operation is Hercules Site Offices, The Wessex Building, MOD Lynham, Calne Road, Lyneham, Chippenham, SN15 4PZ.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

Bolton Interchange

The Company has a material joint operation, Bolton Interchange, in which it holds a 50% share in the ownership (2021: 50%). The activities undertaken by this operation are a joint operation between Kier Construction Limited and Kier Infrastructure and Overseas Limited a fellow Kier group company. The trading address of the joint operation is Great Moor Street, Bolton, BL1 1NS.

Kier Graham Clyde JV

The Company has a material joint operation, Kier Graham Clyde JV, in which it holds a 50% share in the ownership (2021: 50%). The activities undertaken by this operation are a joint operation between Kier Construction Limited and Graham Construction Limited. The trading address of the joint operation is Campsie House, Buchanan Business Park, Stepps, Glasgow, G33 6HZ.

RAF Lakenheath

The Company has a material joint operation, RAF Lakenheath, in which it holds a 60% share in the ownership (2021: 60%). The activities undertaken by this operation are a joint operation between Kier Construction Limited and VolkerFitzpatrick Limited. The trading address of the joint operation is Hertford Road, Hoddesdon, EN11 9BX

17 Trade and other receivables

	2022	2021
	£000	£000
Trade receivables	25,418	14,587
Provision for impairment of trade receivables	(1,127)	-
Net trade receivables	24,291	14,587
Receivables from related parties	4,166	9,263
Prepayments	7,075	7,039
Client retentions	61,946	68,132
Other receivables	1,887	1,156
	99,365	100,177
Less non-current portion	(16,695)	(21,334)
	82,670	78,843

Trade receivables of £24,291,000 (2021: £14,587,000) are stated after provisions for impairment of £1,127,000 (2021: £Nil).

At 30 June 2022, trade and other receivables include retentions of £61,946,000 (2021: £68,132,000) relating to construction contracts of which £16,695,000 (2021: £21,334,000) are due over one year.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

18 Net cash

	2022	2021
	£000	£000
Cash and cash equivalents	437,653	457,006
Bank overdrafts	<u>(3,488)</u>	<u>-</u>
Net Cash	<u>434,165</u>	<u>457,006</u>

19 Trade and other payables

	2022	2021
	£000	£000
Current		
Trade payables	164,266	186,289
Accrued expenses	235,895	251,603
Amounts due to group undertakings	8,944	18,746
Social security and other taxes	45,876	39,038
Other payables	<u>4,336</u>	<u>3,461</u>
Total current trade and other payables	<u>459,317</u>	<u>499,137</u>

Trade payable totalled £286.9million in 2021. £100.6m of that balance has been represented as Accrued expenses to reflect its contract accruals nature.

	2022	2021
	£000	£000
Non-current		
Subcontract retentions	11,261	13,538
Amounts due to group undertakings	<u>91,936</u>	<u>88,400</u>
Total non-current trade and other payables	<u>103,197</u>	<u>101,938</u>

The intercompany loan of £88,400,000, with interest bearing at a rate of 4% being added annually, was taken out in June 2020 and is repayable in June 2025.

20 Lease liabilities

Leases included in liabilities

	2022	2021
	£000	£000
Current	5,971	8,261
Non-current	<u>37,790</u>	<u>38,855</u>
	<u>43,761</u>	<u>47,116</u>

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

20 Lease liabilities (continued)

Lease liabilities maturity analysis

Future minimum lease payments as at 30 June 2022 are as follows:

	2022	2021
	£000	£000
Less than one year	8,413	10,920
One to two years	6,234	5,555
Two to three years	5,608	4,614
Three to four years	4,946	4,556
Four to five years	4,556	4,581
Over five years	23,353	27,771
	<u>53,110</u>	<u>57,997</u>
Total gross payments	<u>53,110</u>	<u>57,997</u>
Impact of finance expenses	(9,349)	(10,881)
	<u>43,761</u>	<u>47,116</u>
Carrying amount of liability	<u>43,761</u>	<u>47,116</u>
Total cash outflows related to leases		
	2022	2021
	£000	£000
Principal elements of lease payments	10,638	14,361
Interest	1,811	2,035
	<u>12,449</u>	<u>16,396</u>
Total cash outflow	<u>12,449</u>	<u>16,396</u>

21 Provisions

	Other provisions	Total
	£000	£000
At 1 July 2021	273	273
Additional provisions	10,200	10,200
Decrease in existing provisions	(174)	(174)
	<u>10,299</u>	<u>10,299</u>
At 30 June 2022	<u>10,299</u>	<u>10,299</u>
Current liabilities	<u>10,299</u>	<u>10,299</u>

Other provisions relate to Broadmoor (£5,000,000) and Fire/Cladding (£5,200,000), the remainder relates to redundancy provisions in respect of the Regional Build restructure.

The Broadmoor provision is for loss-making contracts that the Company is legally obligated to complete. Redundancy and site closure provisions are in respect of redundancy costs and office closures. Fire/Cladding provisions are for potential claims against work completed by the Company.

It is anticipated that the amounts provided will be utilised during the next financial year.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

22 Called up share capital

Allotted, called up and fully paid shares

	No.	2022 £	No.	2021 £
Ordinary Shares of £1 each	<u>25,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>	<u>25,000,000</u>

23 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £6,944,000 (2021: £6,889,000). All contributions were paid as at the balance sheet date.

24 Share-based payments

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

Scheme description

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

Options to acquire ordinary shares in the capital of Kier Group plc were granted to eligible employees who entered into a Sharesave contract. The number of options granted were that number of shares which had an aggregate option price not exceeding the projected proceeds of the Sharesave contract. Options granted under the Sharesave scheme will normally lapse in the event an option holder ceases to remain an employee or officer of the Kier Group.

19,265 Sharesave options were exercised in the year by participants employed by the Company, with a weighted average share price at the date of exercise of £1.07 (2021: no Sharesave options were exercised).

The options outstanding at 30 June 2022, held by employees of the Company, had exercise prices (adjusted for rights/share issues) ranging from £0.56 to £6.47 (2021 - from £0.56 to £8.26) and a weighted average remaining contractual life of 1.6 years (2021 - 2.3 years).

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

24 Share-based payments (continued)

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

Scheme description

The Group has a Long-Term Incentive Plan (LTIP) in which senior employees of the Company participate. Awards made under the LTIP scheme are normally able to vest following the third anniversary of the date of the grant. Vesting may be in full or in part (with the balance of the award lapsing) and is subject to the Group achieving specific performance targets. Awards under the LTIP are all equity settled by way of shares in Kier Group plc.

No share options vested under the LTIP schemes during the current or preceding years.

The options outstanding at 30 June 2022, held by employees of the Company, had exercise price of £Nil (2021 - £Nil) and a weighted average remaining contractual life of 1.3 years (2021 - 2.0 years).

Conditional Share Award Plan ('CSAP')

Scheme description

The Group had a conditional share award plan (CSAP) under which senior employees of the Company received awards of shares subject only to service conditions, i.e. the requirement for participants to remain in employment with the Group over the vesting period. Participants were entitled to receive dividend equivalents on these awards. Awards under the CSAP were all equity settled by way of shares in Kier Group plc.

205,800 (2021: 154,528) options were exercised under the CSAP in the year by participants employed by the Company, with a weighted average share price at date of exercise of £1.08 (2021 - £0.47).

There were no CSAP options outstanding at 30 June 2022. The options outstanding at 30 June 2021 had an exercise price of £Nil and a weighted average remaining contractual life of 0.3 years.

25 Commitments

Capital commitments

The total amount contracted for but not provided in the financial statements was £Nil (2021 - £Nil).

Other financial commitments

The total amount of other financial commitments not provided in the financial statements was £Nil (2021 - £Nil).

There are no differences between the fair values of financial assets and liabilities and their carrying amounts showing in the Statement of Financial Position.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

26 Contingent liabilities

Fire and cladding review

The Company has undertaken a review of all of its current and legacy constructed buildings where it has used cladding solutions and continues to assess the action required in line with the latest updates to Government guidance, as it applies, to multi-storey and multi-occupied residential buildings. The buildings, including the cladding works, were signed off by approved inspectors as compliant with the relevant Building Regulations at the time of completion.

We recognise that Government guidance on the retrospective review of building materials continues to evolve. In preparing the financial statements, currently available information has been considered, including the current best estimate of the extent and future costs of work required, based on the reviews and physical inspections undertaken.

Where an obligation has been established and a reliable estimate of the costs to rectify is available, a provision has been made (see note 21). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses or if Government legislation and regulation further evolves.

27 Parent and ultimate parent undertaking

The Company's immediate parent is Kier Limited.

The ultimate parent is Kier Group plc. These financial statements are available upon request from Companies House and at www.kier.co.uk.

Relationship between entity and parents

The parent of the largest group in which these financial statements are consolidated is Kier Group plc, incorporated in England and Wales.

The address of Kier Group plc is:
2nd Floor, Optimum House, Clippers Quay, Salford. M30 3XP
www.kier.co.uk.

The parent of the smallest group in which these financial statements are consolidated is Kier Group plc, incorporated in England and Wales.

The address of Kier Group plc is:
2nd Floor, Optimum House, Clippers Quay, Salford. M30 3XP

The financial statements of Kier Limited are available from Companies House.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2022 (continued)

28 Related party transactions

There were no related party transactions with directors or key management during the year nor in the prior year, other than that disclosed in note 10.

Summary of transactions with joint ventures

In the current financial year £21,000,000 (2021: £40,800,000) of revenue was passed through from Kier Graham Defence Limited to Kier Construction Limited.

At year end, there is a £1,287,000 (2021: £1,345,000) retention balance with Kier Graham Defence Limited.

The Company is applying FRS 101 and is therefore taking advantage of the exemption from the requirements within IAS 24 to disclose related party transactions entered into between two or more members of a group, where any subsidiary which is party to the transaction is wholly owned by such a member.