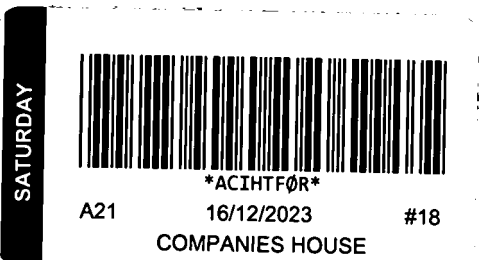


Registration number: 02099533

# Kier Construction Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2023



# Kier Construction Limited

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# **Kier Construction Limited**

## **Company Information**

**Directors** G C Garvie  
B C Mendonca  
S J Togwell  
L Oxley

**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 2023

The directors present their strategic report for Kier Construction Limited (the "Company") for the year ended 30 June 2023.

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 FY23 was £1.319bn; as anticipated this was 14.7% higher than FY22 (£1.150bn) due to the start of works on the new custodial facility, HMP Millsike in East Yorkshire.

The Company also maintained and strengthened its market leading position throughout the 2023 financial year, securing new contract awards valued at £1.7bn during the year, and increasing the total order book to £3.0bn (2022: £2.9bn), which included being awarded a c£300m contract to deliver new houseblock buildings across three prisons.

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 2023 was £533m (2022: £434m), with the average positive cash balance through the 2023 financial year of £246m (2022: £263m) after paying off the final £50m of supplier finance.

Adjusted operating profit (being profit after deducting administrative expenses, but before deducting adjusted items) in the year was £20.5m (2022: £33.5m); this equates to an underlying operating profit margin of 1.6% (2022: 2.9%). In anticipation of the increase in revenue, the business invested in the cost base accordingly whilst managing to maintain the quality of earnings reported.

The Company recognised £14.9m (2022: £32.2m) of adjusting items relating mainly to fire and cladding rectification costs.

- Legacy contract losses relating to the restructure of the Southern region of £nil (2022: £22.3m)
- Fire / cladding related claims of £12.6m (2022: £7.7m)
- Strategic restructure and cost reductions of £2.4m (2022: £2.1m)
- Other £nil (2022: £0.1m)

Profit before tax was £11.2m (2022: £7.9m), with the operating profit reported at £5.6m (2022: £1.3m).

## Kier Construction Limited

### Strategic Report for the Year Ended 30 June 2023 (continued)

Net assets at 30 June 2023 were £101.1m (2022: £91.0m); 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. During the year the company was re-appointed to the £4.5bn Southern Construction Framework and appointed on the £5.1bn Strategic Alliance Contract Framework in relation to the Defence Estate Optimisation ('DEO') Portfolio by the Ministry of Defence.

As a regional contractor, we continue to be well placed to benefit from the UK Government's focus on spending to improve under-invested assets such as schools, hospitals and custodial services, where our Construction business has specialist expertise, although the business has continued 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 has started works on the new £450m custodial facility, HMP Millsike in East Yorkshire utilising 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. Revenue generated from Custodial was £206m (2022: £39m).

Education remains as the largest sector in the Business; revenue from this source aggregated £372m (2022: £310m). 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 £272m (2022: £273m) 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 FY24 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 £79m of revenue (2022: £100m); opportunities are available from the MoD's Defence Estate Optimisation ('DEO') Portfolio.

The business continues to operate in the local authority, civic and municipal buildings sectors, enabling the Company to generate revenues of £315m (2022: £239m). 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	2023	2022
Revenue growth/(decrease)	%	14.7	(20.9)
Adjusted operating profit	£m	20.5	33.5
Operating profit	£m	5.6	1.3
Net cash	£m	532.7	434.2
Order book	£bn	3.0	2.9

## Kier Construction Limited

### Strategic Report for the Year Ended 30 June 2023 (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 2023 Annual Report on pages 70 to 73.

#### 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:

- Focusing on the proactive approach to risk management including the creation of major risk groups specific to each business;
- Simplifying our safety documentation making it easier for our people to access and understand and freeing them up to proactively manage safety on our projects;
- Process put in place to enable greater lessons learnt sharing from incidents and high potential incidents;
- Continued focus on the five safety, health and environment basics;
- Embedding the four strategic pillars and associated objectives of the Health, Safety & Wellbeing strategy (behaviour, operational safety, health and wellbeing and engineering safety);
- Setting a tone from the top, through activities such as senior management visible leadership tours; and
- Ongoing roll-out and embed of the culture programme which recognises healthy behaviours.

## Kier Construction Limited

### Strategic Report for the Year Ended 30 June 2023 (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 cash generation and covenant compliance is maintained;
- Continued collaborative engagement with key stakeholders;
- 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; and
- The Group's revolving credit facility is scheduled to expire in January 2025. The Board is confident in the Group's ability to access a number of available funding markets to achieve an appropriate capital structure and would expect to complete its re-financing in the current financial year.

## Kier Construction Limited

### Strategic Report for the Year Ended 30 June 2023 (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.

Potential impact:

- A failure of the business;
- Increased competition for new work; and
- A decrease in stakeholder confidence in the Company.

Mitigating actions:

- To continue to secure long-term frameworks within each of our business divisions;
- 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 throughout the project lifecycle.

The business suffers a significant loss as a result of failing to adequately undertake bidding, design, mobilisation, delivery and handover (including any remediation works).

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 impact.

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:

- Roll out of culture programme across the business;
- People strategy aligned to the medium-term business plan;
- Diversity and Inclusion roadmap;
- Health, safety and wellbeing strategy;
- Management and leadership development offer;
- Roll out of Being a Kier Manager / line manager training;
- Listening to feedback from employees, including the use of engagement surveys; and
- Create an effective, inclusive work environment, through our Performance Excellence culture.

#### *Supply chain*

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

## Kier Construction Limited

### Strategic Report for the Year Ended 30 June 2023 (continued)

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:**

- Continuing updating the Kier subcontract to reflect the principles of the Construction Playbook;
- Placement of a Procurement Director directly into each business to deliver their supply chain management strategy;
- Continued focus to meet prompt payment reporting requirements;
- Further use of the shared service centre and division resources to channel spend and reduce risk; and
- Continued support of security software and investigate right to work module for further risk reduction across the business.

#### ***Strategy***

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

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

**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;
- Maintaining a well bid order book;
- Delivery of project performance;
- Delivery of our Performance Excellence culture;
- Continued focus on cash management; and
- Effective communication with stakeholders.

#### ***IT security, resilience, cyber and data protection***

Principal risk: The Company is exposed to IT security, resilience, cyber and data protection incidents.

Failure to keep up to date with the modern attack landscape as well as protecting infrastructure from current conventional cyber/loss of data risks.

**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:**

- Staff mandatory training, awareness and phishing campaigns;
- 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; and
- Partners and suppliers follow Kier Group minimum standards re cyber, security and data.

## Kier Construction Limited

### Strategic Report for the Year Ended 30 June 2023 (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 transitional climate change risks. 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 extreme and frequent weather conditions affecting operations and supply chain.

Mitigating actions:

- Delivering against the Group's evolved sustainability framework;
- Develop strategic action plans for each business division that are specific to their goals to achieve our short, medium and long term net zero ambitions;
- Work with our supply chain to help deliver the actions associated with our strategic pillars;
- Maintain the climate risk and opportunities register;
- Embrace modern methods of construction and product innovation;
- Develop working groups to tackle the actionable items in each of our strategic pillars;
- Implement a new environmental data management system; and
- Obtain accreditation to ISO14064.

#### *Macroeconomic*

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

Our ability to win and deliver projects is impacted by developments in the UK economy which may arise from economic slowdown, interest rate rises, unemployment, inflation or UK political and geopolitical instability, resulting in a reduction in, or pausing of, UK Government and private sector spending in our selected markets.

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; and
- Kier Commercial Standards.

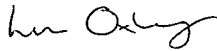
## **Kier Construction Limited**

### **Strategic Report for the Year Ended 30 June 2023 (continued)**

#### **Corporate responsibility**

Please see the Environmental, Social and Governance ('ESG') report 'Building for a sustainable world' in the Kier Group plc 2023 Annual Report (pages 42 to 61 inclusive), which is available at [www.kier.co.uk](http://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 06 December 2023 and signed on its behalf by:



.....  
L Oxley  
Director

## **Kier Construction Limited**

### **Directors' Report for the Year Ended 30 June 2023**

The directors of Kier Construction Limited (the "Company") present their report and the audited financial statements for the year ended 30 June 2023.

#### **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 (resigned 31 December 2022)

G C Garvie

M F Jones (resigned 22 September 2023)

B C Mendonca

S J Togwell (appointed 1 January 2023)

L Oxley (appointed 24 October 2023)

#### **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 2023 (continued)

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

##### (a) Foreign exchange risk

The Company does not hedge for foreign currency exchange risk as balances in foreign currency are not significant, although there are some transactions denominated in foreign currencies. All bonds and guarantees are funded out of the UK.

##### (b) Interest rate risk

The Company is owed and owes money via intercompany loan notes and these are subject to fixed rate interest charges. The Company does not undertake hedging or complex financial instruments to mitigate this risk.

##### (c) Credit risk

The principal financial assets are cash and debtors. Trade debtors are managed through set up and authorisation policies for new customers and monthly monitoring of balances.

##### (d) Liquidity risk

The Company's policy on liquidity risk is supported by the Group's policy on liquidity risk. The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund operations without the need to carry significant net debt over the medium term. The Group's principal borrowing facilities are provided by a Group of relationship banks in the form of unsecured committed borrowing facilities.

The amount of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

##### (e) Price risk

The Company does not hold any equity securities that are available for sale, and does not have any significant exposure to commodity price risk.

#### **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 153 (inclusive) of the 2023 Annual Report of Kier Group plc (available at [www.kier.co.uk](http://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 [www.kier.co.uk](http://www.kier.co.uk).

#### **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 57 to 58 of the ESG Report 'Building for a sustainable world' in the 2023 Annual Report of Kier Group plc (available at [www.kier.co.uk](http://www.kier.co.uk)).

## **Kier Construction Limited**

### **Directors' Report for the Year Ended 30 June 2023 (continued)**

#### **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 54 and 55 of the 2023 Annual Report of Kier Group plc (available at [www.kier.co.uk](http://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 70 to 73 and 90 of the 2023 Annual Report of Kier Group plc (available at [www.kier.co.uk](http://www.kier.co.uk)).

#### **Future Developments**

The Company is expected to perform strongly, with over 95% of the forecast revenue for FY2024 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 (2022: £nil) were approved in the year. The directors do not recommend a final dividend in respect of the financial year ended 30 June 2023.

#### **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 2023 (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.

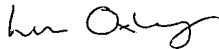
**Kier Construction Limited**

**Directors' Report for the Year Ended 30 June 2023 (continued)**

**Reappointment of independent auditors**

Under section 487(2) of the Companies Act 2006, PricewaterhouseCoopers LLP will be deemed to have been reappointed as independent 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 06 December 2023 and signed on its behalf by:



.....  
L Oxley  
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 2023 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, including 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 2023; the income statement, the statement of comprehensive income and 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 2023 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 employment legislation, data protection legislation, the Health and Safety Executive legislation and equivalent local laws, Fire Safety Act 2021, anti-bribery and corruption legislation, 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 Companies Act 2006 and tax 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 fraudulent financial reporting 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;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations and unusual words;
- Challenging assumptions and judgements made by management in the estimates involved in accounting for long-term contracts, and where applicable inspecting correspondence with external advisors;

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](http://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  
06 December 2023

## Kier Construction Limited

### Income Statement for the Year Ended 30 June 2023

	Note	2023 £000	2022 £000
Revenue	4	1,318,930	1,150,199
Cost of sales		<u>(1,223,037)</u>	<u>(1,085,038)</u>
Gross profit		95,893	65,161
Administrative expenses		<u>(90,290)</u>	<u>(63,895)</u>
Operating profit	5	<u>5,603</u>	<u>1,266</u>
Finance income	7	12,696	12,144
Finance costs	8	<u>(7,080)</u>	<u>(5,523)</u>
Net finance income		<u>5,616</u>	<u>6,621</u>
Profit before tax		11,219	7,887
Income tax expense	12	<u>(3,103)</u>	<u>(2,178)</u>
Profit for the financial year		<u><u>8,116</u></u>	<u><u>5,709</u></u>
<b>Supplementary information</b>			
Adjusted <sup>1</sup> operating profit		20,545	33,520
Adjusted <sup>1</sup> profit before tax		26,161	40,141

The above results were derived from continuing operations.

<sup>1</sup> Reference to 'adjusted' excludes adjusting items, see notes 2 and 6.

The notes on pages 23 to 49 form an integral part of these financial statements.

## Kier Construction Limited

### Statement of Comprehensive Income for the Year Ended 30 June 2023

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Profit for the financial year	<u>8,116</u>	<u>5,709</u>
Total comprehensive income for the year	<u><u>8,116</u></u>	<u><u>5,709</u></u>

The notes on pages 23 to 49 form an integral part of these financial statements.

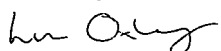
# Kier Construction Limited

(Registration number: 02099533)

## Statement of Financial Position as at 30 June 2023

	Note	2023 £000	2022 £000
<b>Assets</b>			
<b>Fixed assets</b>			
Property, plant and equipment	13	4,128	4,295
Right of use assets	14	38,106	40,625
Investments in subsidiaries	15	974	974
Mobilisation costs	4	2,017	6,609
		<u>45,225</u>	<u>52,503</u>
<b>Current assets</b>			
Contract assets	4	115,973	139,622
Debtors	16	85,259	99,365
Deferred tax assets	12	18,905	18,003
Income tax asset		1,846	-
Cash and cash equivalents	17	532,777	434,165
		<u>754,760</u>	<u>691,155</u>
<b>Total assets</b>		<u><b>799,985</b></u>	<u><b>743,658</b></u>
<b>Equity and liabilities</b>			
<b>Creditors - amounts falling due within one year</b>			
Trade and other payables	18	497,749	459,317
Contract liabilities	4	28,249	24,850
Lease liabilities	19	8,208	5,971
Income tax liability		-	11,235
Provisions	20	22,915	10,299
		<u>557,121</u>	<u>511,672</u>
<b>Creditors - amounts falling due after one year</b>			
Lease liabilities	19	34,801	37,790
Trade and other payables	18	106,982	103,197
		<u>141,783</u>	<u>140,987</u>
<b>Total liabilities</b>		<u><b>698,904</b></u>	<u><b>652,659</b></u>
<b>Equity</b>			
Called up share capital	21	25,000	25,000
Revaluation reserve		318	318
Retained earnings		75,763	65,681
<b>Total equity</b>		<u><b>101,081</b></u>	<u><b>90,999</b></u>
<b>Total equity and liabilities</b>		<u><b>799,985</b></u>	<u><b>743,658</b></u>

The financial statements on pages 19 to 49 were approved by the Board of Directors on 06 December 2023 and signed on its behalf by:



.....  
L Oxley, Director

The notes on pages 23 to 49 form an integral part of these financial statements.

## Kier Construction Limited

### Statement of Changes in Equity for the Year Ended 30 June 2023

	<b>Share capital £000</b>	<b>Revaluation reserve £000</b>	<b>Retained earnings £000</b>	<b>Total £000</b>
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
	<b>Share capital £000</b>	<b>Revaluation reserve £000</b>	<b>Retained earnings £000</b>	<b>Total £000</b>
At 1 July 2022	25,000	318	65,681	90,999
Profit for the year	-	-	8,116	8,116
Total comprehensive income	-	-	8,116	8,116
Share based payment transactions	-	-	1,966	1,966
At 30 June 2023	25,000	318	75,763	101,081

The notes on pages 23 to 49 form an integral part of these financial statements.

# Kier Construction Limited

## Notes to the Financial Statements for the Year Ended 30 June 2023

### 1 General information

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

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.

#### Changes in accounting policy

The following amendments to standards are effective for the financial year ended 30 June 2023 onwards:

- Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16 (published May 2020).

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

#### 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).

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 2 Accounting policies (continued)

- 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).
- 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.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (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, these are accounted for under IAS 37 and are shown as onerous contract provision in note 20;
- 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 2023 (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.

The Company participates in the UK Government's Research and Development Expenditure Credit ('RDEC') tax incentive scheme. Credits receivable under the RDEC scheme are recognised within operating profit and are treated as taxable income. Amounts receivable in respect of RDEC claims are included on the balance sheet within the corporation tax receivable balance or as a reduction in the corporation tax payable balance, as appropriate.

#### 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

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 2 Accounting policies (continued)

Furniture, fittings & equipment 10% to 50% per annum

#### Investments

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

#### Mobilisation Costs

Pre-contract costs to obtain a contract that would have been incurred irrespective of whether the contract was obtained are recognised as an expense when incurred, unless those costs are explicitly chargeable to the customer irrespective of whether the contract is obtained.

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 Group 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 fixed 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.

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:

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 2 Accounting policies (continued)

- 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.

#### 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.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 2 Accounting policies (continued)

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.

#### 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:-

#### 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.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 2 Accounting policies (continued)

##### 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.

##### 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.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 2 Accounting policies (continued)

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.

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 month before 30 June 2023 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.

#### **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.

##### *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 2023 (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 Group'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.

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 2023 (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

Building operates around 300 sites (2022: 350) each year with an average project size of £15.8m (2022: £12.9m) and with average revenue in the year of £4.4m (2022: £3.3m). These projects typically operate under framework contracts where costs are known with a greater degree of certainty.

The historic profit margins in the construction businesses typically range from 3.2% to 4.2%. A potential downside risk in margin would be 1.0% (2022: 2.4%). Given the short-term average duration of the construction portfolio, the impact of such a decrease in margin across projects in delivery at the year-end would be a decrease in operating profit of £16.5m (2022: £34.6m).

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, programme of works, maintenance and defect obligations and changes in costs. The estimates and judgements in respect of construction contracts are considered to be critical.

##### 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.

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 20). 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 which could give rise to the recognition of further liabilities. Such liabilities, should they arise, are expected to be covered materially by the Company's insurance arrangements thereby limiting the net exposure. Any insurance recovery must be considered virtually certain before a corresponding asset is recognised and so this could potentially lead to an asymmetry in the recognition of assets and liabilities.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

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

##### 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 32. Determining whether an item is classified as an adjusting item requires significant judgement.

Total adjusting items of £14,952,000 were charged to the income statement in respect of continuing operations for the year ended 30 June 2023 (2022: £32,254,000). 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.

#### 4 Revenue

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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Revenue from construction contracts	<u>1,318,930</u>	<u>1,150,199</u>
 <b>Non-current assets and liabilities</b>		
	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Mobilisation costs	<u>2,017</u>	<u>6,609</u>
 <b>Current assets and liabilities</b>		
	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Contract assets	115,973	139,622
Contract liabilities	<u>(28,249)</u>	<u>(24,850)</u>
Net unbilled contract assets	<u>87,724</u>	<u>114,772</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.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 5 Operating profit

Arrived at after charging/(crediting):

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Depreciation expense	219	212
Depreciation on right of use assets - plant and equipment	4,421	3,886
Depreciation on right of use assets - land and buildings	3,990	4,149
Depreciation on right of use assets - Motor vehicles	1,615	1,562
Amortisation of intangible contract	-	83
Impairment loss	139	103
Research and development credit	(5,248)	(8,357)
Profit on disposal of property, plant and equipment	(1,295)	(412)
Share based payment transactions	<u>1,966</u>	<u>2,728</u>

#### 6 Adjusting items

	Operating profit		Profit before tax	
	2023	2022	2023	2022
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Reported profit	5,604	1,266	11,220	7,887
Restructure of Regional Building business	-	22,310	-	22,310
Redundancy and people related costs	2,358	2,123	2,358	2,123
Legal compliance	12,584	7,738	12,584	7,738
Amortisation of intangible assets	<u>-</u>	<u>83</u>	<u>-</u>	<u>83</u>
Adjusted profit	<u>20,546</u>	<u>33,520</u>	<u>26,162</u>	<u>40,141</u>

In the current year there was a cost £2,358,000 (2022: £2,123,000) for redundancies and onerous leases.

The Company has incurred £12,584,000 (2022: £7,738,000) of costs in complying with the updated fire compliance regulations. Of these amounts the total amount provided for on the balance sheet for Fire and Cladding rectification works is £15,500,000 (2022: £5,200,000) (see note 20). 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.

#### 7 Finance income

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Interest received from group undertakings	<u>12,696</u>	<u>12,144</u>

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 8 Finance costs

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Interest paid to group undertakings	5,218	3,712
Interest expense on leases	1,862	1,811
	<b>7,080</b>	<b>5,523</b>

#### 9 Staff costs

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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	149,827	135,665
Social security costs	16,049	14,278
Other Pension Costs	7,903	6,944
	<b>173,779</b>	<b>156,887</b>

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

	<b>2023</b>	<b>2022</b>
	<b>No.</b>	<b>No.</b>
Monthly average number of persons employed by the Company during the year, including directors, was	<b>2,010</b>	<b>1,911</b>

#### 10 Directors' remuneration

The directors' remuneration for the year was as follows:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Salary and bonus	1,629	1,255
Pension	116	109
Benefits	45	41
	<b>1,790</b>	<b>1,405</b>

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 10 Directors' remuneration (continued)

In respect of the highest paid director:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Salary and bonus	778	764
Pension	37	67
Benefits	15	22
	<b>830</b>	<b>853</b>

There are two directors (2022: 2) 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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Audit of the financial statements	<b>820</b>	<b>710</b>

The auditors' remuneration for the Company for the year was settled on its behalf by Kier Limited (a member of Kier Group Plc) and was recharged to Kier Construction Limited as part of the fixed annual Kier Group recharges.

#### 12 Income tax expense

Tax expense in the income statement

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<b>Current taxation</b>		
UK corporation tax	3,729	2,361
UK corporation tax adjustment to prior periods	276	713
Total current income tax	<b>4,005</b>	<b>3,074</b>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(936)	(334)
Arising from changes in tax rates and laws	26	45
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	8	(607)
Total deferred taxation	<b>(902)</b>	<b>(896)</b>
Tax expense in the income statement	<b>3,103</b>	<b>2,178</b>

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 12 Income tax expense (continued)

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK (2022: higher than the standard rate of corporation tax in the UK) of 20.5% (2022: 19%).

The differences are reconciled below:

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Profit before tax	11,219	7,887
Corporation tax at standard rate	2,300	1,498
Increase in current tax from adjustment for prior periods	284	106
Increase from effect of revenues exempt from taxation	(1)	-
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	494	529
Deferred tax expense relating to changes in tax rates or laws	26	45
Total tax charge	3,103	2,178

The deferred tax balance as at the year end has been recognised at 25% (2022: 25%), which is the enacted corporation tax rate effective from 1 April 2023.

#### Deferred tax

Deferred tax movement during the year:

	<b>At 1 July 2022</b>	<b>Recognised in income</b>	<b>At 30 June 2023</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Accelerated tax depreciation	675	(120)	555
Tax losses carry-forwards	11,395	-	11,395
Other items	5,933	1,022	6,955
Net tax assets	18,003	902	18,905

Deferred tax movement during the prior year:

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

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 12 Income tax expense (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 it is probable that there would be sufficient taxable profits in the foreseeable future 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 Property, plant and equipment

	Land and buildings £000	Furniture, fittings and equipment £000	Total £000
<b>Cost</b>			
At 30 June 2022	4,782	2,027	6,809
At 1 July 2022	4,782	2,027	6,809
Additions	-	52	52
Disposals	(300)	(1,046)	(1,346)
At 30 June 2023	<u>4,482</u>	<u>1,033</u>	<u>5,515</u>
<b>Accumulated depreciation</b>			
At 30 June 2022	1,060	1,454	2,514
At 1 July 2022	1,060	1,454	2,514
Charge for the year	107	112	219
Eliminated on disposal	(300)	(1,046)	(1,346)
At 30 June 2023	<u>867</u>	<u>520</u>	<u>1,387</u>
<b>Carrying amount</b>			
At 30 June 2023	<u>3,615</u>	<u>513</u>	<u>4,128</u>
At 30 June 2022	<u>3,722</u>	<u>573</u>	<u>4,295</u>

Included within the net book value of land and buildings above is £3,615,000 (2022: £3,722,000) in respect of freehold land and buildings, and £nil (2022: £nil) in respect of long leasehold land and buildings.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 14 Right of use assets

	Land and buildings £000	Motor vehicles £000	Plant and equipment £000	Total £000
<b>Carrying amount</b>				
At 1 July 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	34,977	3,428	2,220	40,625
Additions	1,054	2,499	6,141	9,694
Disposals	(1,250)	(375)	(562)	(2,187)
Depreciation charge for the year	<u>(3,990)</u>	<u>(1,615)</u>	<u>(4,421)</u>	<u>(10,026)</u>
At 30 June 2023	<u>30,791</u>	<u>3,937</u>	<u>3,378</u>	<u>38,106</u>

#### 15 Investments in subsidiaries

Subsidiaries and joint ventures	£000
<b>Cost or valuation</b>	
At 1 July 2022	<u>974</u>
At 30 June 2023	<u>974</u>
<b>Carrying amount</b>	
At 1 July 2022	<u>974</u>
At 30 June 2023	<u>974</u>

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 15 Investments in subsidiaries (continued)

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

Name of subsidiary	Principal activity	Registered office <sup>1</sup>	Proportion of ownership interest and voting rights held	
			2023	2022
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%
William Moss Construction Limited (In Liquidation)	Dormant	2	100%	100%
Wallis Limited	Dormant	1	100%	100%
Wallis Western Limited	Dormant	1	100%	100%

<sup>1</sup>see 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.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 15 Investments in subsidiaries (continued)

##### Joint ventures

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

Name of joint venture	Principal activity	Registered office	Proportion of ownership interest and voting rights held	
			2023	2022
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 (2022: 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.

###### Bolton Interchange

The Company has a material joint operation, Bolton Interchange, in which it holds a 50% share in the ownership (2022: 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 (2022: 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 (2022: 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.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 16 Trade and other receivables

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Trade receivables	17,143	25,418
Provision for impairment of trade receivables	<u>(664)</u>	<u>(1,127)</u>
Net trade receivables	16,479	24,291
Receivables from related parties	1,040	4,166
Prepayments	4,270	7,075
Client retentions	56,315	61,946
Other receivables	<u>7,155</u>	<u>1,887</u>
	85,259	99,365
Less non-current portion	<u>(18,205)</u>	<u>(16,695)</u>
	<u><u>67,054</u></u>	<u><u>82,670</u></u>

Trade receivables of £16,479,000 (2022: £24,291,000) are stated after provisions for impairment of £664,000 (2022: £1,127,000).

At 30 June 2023, trade and other receivables include client retentions of £56,315,000 (2022: £61,946,000) relating to construction contracts of which £18,205,000 (2022: £16,695,000) are due over one year.

#### 17 Cash and cash equivalents

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	<u>532,777</u>	<u>434,165</u>

#### 18 Trade and other payables

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
<b>Current</b>		
Trade payables	156,265	164,266
Accrued expenses	261,459	235,895
Amounts due to group undertakings	7,174	8,944
Social security and other taxes	70,205	45,854
Other payables	<u>2,646</u>	<u>4,358</u>
Total current trade and other payables	<u><u>497,749</u></u>	<u><u>459,317</u></u>

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 18 Trade and other payables (continued)

	2023	2022
	£000	£000
Subcontract retentions	11,369	11,261
Amounts due to group undertakings	<u>95,613</u>	<u>91,936</u>
Total non-current trade and other payables	<u>106,982</u>	<u>103,197</u>

The intercompany loan of £95,613,000 (2022: £91,936,000), with interest bearing at a rate of 4% (2022: 4%) being added annually, was taken out in June 2020 and is repayable in June 2025.

#### 19 Lease liabilities

##### Leases included in liabilities

	2023	2022
	£000	£000
Current	8,208	5,971
Non-current	<u>34,801</u>	<u>37,790</u>
	<u>43,009</u>	<u>43,761</u>

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 19 Lease liabilities (continued)

##### Lease liabilities maturity analysis

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

	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Less than one year	9,842	8,413
One to two years	7,039	6,234
Two to three years	5,692	5,608
Three to four years	4,902	4,946
Four to five years	4,432	4,556
Over five years	19,424	23,353
Total gross payments	51,331	53,110
Impact of finance expenses	(8,322)	(9,349)
Carrying amount of liability	43,009	43,761
<b>Total cash outflows related to leases</b>		
	<b>2023</b>	<b>2022</b>
	<b>£000</b>	<b>£000</b>
Principal elements of lease payments	11,356	10,638
Interest	1,862	1,811
Total cash outflow	13,218	12,449

#### 20 Provisions

	<b>Other provisions</b>	<b>Total</b>
	<b>£000</b>	<b>£000</b>
At 1 July 2022	10,299	10,299
Additional provisions	7,400	7,400
Increase in existing provisions	10,315	10,315
Provisions used	(5,099)	(5,099)
At 30 June 2023	22,915	22,915
Current liabilities	22,915	22,915

The provision relates to Fire/Cladding £15,500,000 (2022: £5,200,000), Lisburn £6,800,000 (2022: £nil), which relates to provision for future costs in relation to the rebuild of Block A following fire damage and Winchester £600,000 (2022: £nil). Broadmoor £5,000,000 was utilised in the current financial year.

## Kier Construction Limited

### Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)

#### 21 Called up share capital

##### Allotted, called up and fully paid shares

	No.	2023 £	No.	2022 £
Ordinary Shares of £1 each	25,000,000	25,000,000	25,000,000	25,000,000

#### 22 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 £7,903,000 (2022: £6,944,000). All contributions were paid as at the balance sheet date.

#### 23 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.

7,037 (2022: 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 £0.72 (2022: £1.07).

The options outstanding at 30 June 2023, held by employees of the Company, had exercise prices (adjusted for rights/share issues) ranging from £0.55 to £0.96 (2022 - from £0.56 to £6.47) and a weighted average remaining contractual life of 1.6 years (2022 - 1.6 years).

## **Kier Construction Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)**

#### **23 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.

2,216,393 new options were granted under the LTIP scheme in the year (2022: Nil).

The options outstanding at 30 June 2023, held by employees of the Company, had exercise price of £Nil (2022 - £Nil) and a weighted average remaining contractual life of 1.2 years (2022 - 1.3 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.

No options were exercised under the CSAP in the current year (2022: 205,800) by participants employed by the Company, with a weighted average share price at date of exercise of £Nil (2022 - £1.08).

There were no CSAP options outstanding at 30 June 2023. The options outstanding at 30 June 2023 had an exercise price of £Nil and a weighted average remaining contractual life of 0.3 years.

## **Kier Construction Limited**

### **Notes to the Financial Statements for the Year Ended 30 June 2023 (continued)**

#### **24 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.

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 20). 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 which could give rise to the recognition of further liabilities. Such liabilities, should they arise, are expected to be covered materially by the Group's insurance arrangements thereby limiting the net exposure. Any insurance recovery must be considered virtually certain before a corresponding asset is recognised and so this could potentially lead to an asymmetry in the recognition of assets and liabilities.

#### **25 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](http://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](http://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 2023 (continued)**

#### **26 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 £110,000 (2022: £21,000,000) of revenue was passed through from Kier Graham Defence Limited to Kier Construction Limited.

At year end, there is a £1,288,000 (2022: £1,287,000) retention balance and £140,000 (2022: £nil) short term loan for VAT POA 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.