

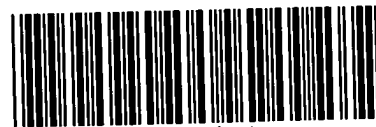
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Kier Construction Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2024

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Kier Construction Limited

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Kier Construction Limited

Company Information

Directors 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 2024

The directors present their strategic report for Kier Construction Limited (the "Company") for the year ended 30 June 2024.

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 principal activity of the Company is to provide comprehensive building service, offering excellence to private and public sector clients across the UK.

The Company has national coverage delivering schools, hospitals, prisons, defence estate optimisation as well as commercial, residential and heritage buildings for local authorities, the Ministry of Justice and other government departments, and the private sector.

Revenue generated in FY24 was £1.583bn; as anticipated this was 20.0% higher than FY23 (£1.319bn) due to the ongoing works on the new custodial facility, HMP Millsike in East Yorkshire.

The Company also maintained and strengthened its market leading position throughout the 2024 financial year, securing new contract awards valued at £1.3bn during the year, and increasing the total order book to £3.1bn (2023: £3.0bn), which included being awarded a c£200m contract to deliver new houseblock buildings across two 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 2024 was £618m (2023: £533m), with the average positive cash balance through the 2024 financial year of £352m (2023: £246m).

Adjusted operating profit (being profit after deducting administrative expenses, but before deducting adjusted items) in the year was £29.6m (2023: £20.5m); this equates to an underlying operating profit margin of 1.9% (2023: 1.6%). 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 £17.6m (2023: £14.9m) of adjusting items relating mainly to fire and cladding rectification costs.

- Fire / cladding related claims of £15.0m (2023: £12.6m)
- Strategic restructure and cost reductions of £Nil (2023: £2.4m)
- Legacy contract write off for Living contracts in Western & Wales £1.6m (2023: £Nil)
- Legacy investment impairment £1.0m (2023: £Nil)

Profit before tax was £22.7m (2023: £11.2m), with the operating profit reported at £11.9m (2023: £5.6m).

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2024 (continued)

Net assets at 30 June 2024 were £99.9m (2023: £101.1m); this reflects an small decrease in the year following a dividend payment, with net assets underpinned by the strong cash and working capital position.

The continuing trend for public 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 gained access to £16bn of work through appointment frameworks, including but not limited to: Procure Partnerships National (£8bn), DIO's SLA Offsite Alliance (£1.1bn) and Pagabo Decarbonisation frameworks (General and Healthcare) (£1.6bn each).

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 defence estate, 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.

Building on Kier's justice experience, we have signed contracts with the Ministry of Justice for two Accelerated Houseblock Delivery Programme (AHDP) schemes this year (total value c £200m), where Kier's use of offsite construction, design standardisation and integrated digital tools will drive efficiencies in the design, construction and operation of these facilities. Revenue generated from Custodial was £324m (2023: £206m).

Education remains as the largest sector in the Business; revenue from this source aggregated £442m (2023: £372m). The majority of this work is delivered through framework arrangements with the Department for Education (DfE), 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 schools, 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 £271m (2023: £272m) 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 FY25 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 £69m of revenue (2023: £79m); with ongoing opportunities from the MoD's Defence Estate Optimisation ('DEO') Portfolio and Single Living Accommodation (SLA) Alliance.

The business continues to operate in the local authority, civic and municipal buildings sectors, enabling the Company to generate revenues of £459m (2023: £315m). 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	2024	2023
Revenue growth/(decrease)	%	20.0	14.7
Adjusted operating profit	£m	29.6	20.5
Operating profit	£m	11.9	5.6
Net cash	£m	618.2	532.7
Order book	£bn	3.1	3.0

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2024 (continued)

Stakeholders

At Kier, stakeholder engagement is seen as key to the delivery of the Group's purpose and strategy and therefore its long-term sustainable success. Employees, customers, shareholders, supply chain partners, the UK government, banks, lenders, sureties and insurers, pension trustees and joint venture partners are all key stakeholders for the Group. Kier recognises the importance of effective stakeholder engagement and that stakeholders' views should be considered in its decision-making. Read more on our engagement with key stakeholders in the Kier Group plc 2024 Annual Report on pages 65 to 67.

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.

Non-financial and sustainability information statement

For information on how the Group complies with non-financial performance and sustainability reporting requirements and on compliance with sections 414CA and 414CB of the Companies Act 2006, please see page 84 of the Kier Group plc 2024 Annual Report (available at www.kier.co.uk), which signposts where in the annual report you can find more information.

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 rigorous management of health, safety and wellbeing 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 resulting in greater levels of absence, lowered operational performance and resilience.

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2024 (continued)

Mitigating actions:

- Simplified Integrated Management System making it easier for our people to access and understand, freeing them up to proactively manage Health and Safety on our projects;
- Improve safety performance by sharing lessons learnt from incidents via alerts, safety bulletins and the Incident Review Board Process;
- Embed the Responsible Business Strategy, including a focus on the five Safety, Health and Environment basics, our Group wide culture and emerging behavioural safety programmes;
- Proactive HSW Leadership including senior management Visible Leadership Tours, Operational Safety and Site Safety Inspections and the sharing of best practice;
- Compliance with ISO 45001; and
- Promotion of our network of Mental Health First Aiders, Wellbeing Champions and Employee Assistance Programme.

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 has established funding through to February 2029.

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2024 (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 the 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 businesses;
- Tailoring the Company's offer to meet customer needs;
- Maintaining an efficient cost base; and
- Project Lifecycle Management gateway process.

Contract management of changes

Principal risk: failure to manage contracts effectively at each stage of a project's lifecycle.

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

Potential impact:

- A failure to manage project delivery and work in progress 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;
- In-built escalation to identify unacceptable levels of unagreed change; and
- Project Lifecycle Management gateway process.

People

Principal risk: failure to attract and retain key employees.

The Company's employees are critical to its ability to deliver the business plan. The Company needs to attract, retain and develop people to ensure they have the right skills, experience and behaviours.

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:

- Embed and develop the Kier Culture (values and healthy behaviours) to drive high and balanced performance;
- Delivering the People strategy and strategic workforce planning aligned to the business plan;
- Deliver the responsible business strategy;
- Deliver award winning leadership, management and technical development offer supported by a proactive talent management process;
- Employee engagement, feedback and positive action plan (Your Voice); and
- Compelling and competitive employee value proposition.

Kier Construction Limited

Strategic Report for the Year Ended 30 June 2024 (continued)

Supply chain

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

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

Potential impact:

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

Mitigating actions:

- Continued updating of the Kier subcontracts to reflect the principles of the Construction Playbook;
- Placement of divisional Procurement Directors to deliver the 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 - early engagement project; 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 long-term sustainable growth plan.

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:

- Maintaining the balance sheet strength;
- Maintaining a well bid order book;
- Delivery of project performance;
- Delivery of Kier's 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 cyber/loss of data risks and Artificial Intelligence increasing cyber threats.

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 business continuity plan;
- System alerts, patching/updates and monitoring; 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 2024 (continued)

Climate change

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

The Company's ability to win work is dependent on delivering on Kier's Environmental, Social and Governance ('ESG') commitments.

Potential impact:

- Failure to win work;
- Failure to meet Kier's BfaSW targets;
- Failure to meet client and investor expectations or regulatory requirements;
- Not attracting or retaining people; and
- Reputational damage.

Mitigating actions:

- Delivering against the BfaSW framework including monitoring key metrics and progress against targets;
- Work with our supply chain to help deliver the actions associated with our strategic pillars and further imbed product innovation, including modern methods of construction and digitalisation;
- Embed the new environmental data management system (Rio);
- Maintain and improve performance through ESG certification, accreditation and benchmarks and continue proactive stakeholder reporting and disclosure;
- Undertake climate scenario analysis to mitigate risks and maximise opportunities; and
- Retain ISO 14001 certification and embed environmental best practice.

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 insights 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 2024 (continued)

ESG

Kier's purpose is to sustainably deliver infrastructure which is vital to the UK. To achieve this, the Group is focused on growth that supports a just transition towards a greener, fairer, resilient and inclusive economy. As a 'strategic supplier' to the UK Government, Environmental, Social & Governance ('ESG') is fundamental to Kier's ability to win work and secure positions on long-term frameworks.

Kier believes that to be a responsible business and to play a leading role in our industry, the Group must both address the impact of climate change and leave a positive lasting legacy in the communities in which it operates.

Last year, Kier launched its refreshed sustainability framework, Building for a Sustainable World ("BfaSW"), which covers sustainability from both an environmental and social perspective. As a member of the Kier Group, the Company is guided by the BfaSW framework.

For details of the Group's work in this area, please see the ESG report in the Kier Group plc 2024 Annual Report (pages 36 to 57), which is available at www.kier.co.uk.

Approved by the Board on 13 December 2024 and signed on its behalf by:



.....
L Oxley
Director

Kier Construction Limited

Directors' Report for the Year Ended 30 June 2024

The directors of Kier Construction Limited (the "Company") present their report and the audited financial statements for the year ended 30 June 2024.

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:

G C Garvie (resigned 31 December 2023)

M F Jones (resigned 22 September 2023)

B C Mendonca

S J Togwell

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 2024 (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 company listed on the London Stock Exchange in the Equity Shares (Commercial Companies) category, is subject to the UK Corporate Governance Code 2018 (the "Code"). Pages 86 to 134 of the 2024 Annual Report of Kier Group plc (available at www.kier.co.uk) explain how Kier Group plc applied the principles, 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.

Employee engagement

Kier recognises the importance of receiving feedback from its people. For information on the Group's employee engagement activities, which involve the employees of the Company, please see pages 54 and 96 to 97 of the 2024 Annual Report of Kier Group plc (available at www.kier.co.uk).

Kier Construction Limited

Directors' Report for the Year Ended 30 June 2024 (continued)

Employment of disabled persons

At Kier, our mission is to shape a high-performing, diverse and inclusive business where everyone can belong, contribute and thrive. For information on how the Group creates an inclusive workplace, please see the 'Fostering a diverse, inclusive workplace' section on pages 51 and 52 of the 2024 Annual Report of Kier Group plc (available at www.kier.co.uk).

Engagement with suppliers, customers and others

Kier recognises the importance of engagement with its suppliers, customers and key stakeholders so that their views can be considered in decision-making. Information on the Group's engagement with suppliers, customers and others during the financial year can be found on pages 65 to 67 of the 2024 Annual Report of Kier Group plc (available at www.kier.co.uk).

Future Developments

The Company is expected to perform strongly, with over 97% of the forecast revenue for FY2025 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

A £20m interim dividend (2023: £nil) was paid in the year to Kier group Plc and £1.0m received (2023: £nil) from Kier Southern Limited. The directors do not recommend a final dividend in respect of the financial year ended 30 June 2024.

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 2024 (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 2024 (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 13 December 2024 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 2024 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 2024; 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, comprising material accounting policy information and other explanatory information.

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, as applicable to other entities of public interest, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the company or its controlled undertakings in the period under audit.

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 2024 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, construction regulations, and anti-bribery and corruption 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 regulations and fraud;
- Identifying and testing journal entries, in particular any journal entries posted with unusual account combinations to revenue;
- 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. 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.



Darryl Phillips (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
13-12-2024

Kier Construction Limited

Income Statement for the Year Ended 30 June 2024

	Note	2024 £000	2023 £000
Revenue	4	1,583,449	1,318,930
Cost of sales		<u>(1,488,793)</u>	<u>(1,223,037)</u>
Gross profit		94,656	95,893
Administrative expenses		<u>(82,749)</u>	<u>(90,290)</u>
Operating profit	5	<u>11,907</u>	<u>5,603</u>
Finance income	7	17,529	12,696
Finance costs	8	<u>(6,692)</u>	<u>(7,080)</u>
Net finance income		<u>10,837</u>	<u>5,616</u>
Profit before tax		22,744	11,219
Income tax expense	12	<u>(6,500)</u>	<u>(3,103)</u>
Profit for the financial year		<u><u>16,244</u></u>	<u><u>8,116</u></u>
Supplementary information			
Adjusted ¹ operating profit		29,550	20,545
Adjusted ¹ profit before tax		40,387	26,161

The above results were derived from continuing operations.

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

Kier Construction Limited

Statement of Comprehensive Income for the Year Ended 30 June 2024

	2024 £000	2023 £000
Profit for the financial year	<u>16,244</u>	<u>8,116</u>
Total comprehensive income for the year	<u><u>16,244</u></u>	<u><u>8,116</u></u>

Kier Construction Limited

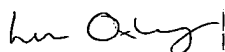
(Registration number: 02099533)

Statement of Financial Position as at 30 June 2024

	Note	2024 £000	2023 £000
Non-current assets			
Intangible assets	13	4,197	-
Property, plant and equipment	14	3,873	4,128
Right of use assets	15	32,676	38,106
Investments	16	-	974
Mobilisation costs	4	1,023	2,017
		<u>41,769</u>	<u>45,225</u>
Current assets			
Contract assets	4	84,687	115,973
Debtors	17	142,616	85,259
Deferred tax assets	12	19,332	18,905
Income tax asset		-	1,846
Cash and cash equivalents	18	618,213	532,777
		<u>864,848</u>	<u>754,760</u>
Total assets		<u><u>906,617</u></u>	<u><u>799,985</u></u>
Equity and liabilities			
Creditors - amounts falling due within one year			
Trade and other payables	19	613,345	497,749
Contract liabilities	4	96,706	28,249
Lease liabilities	20	7,750	8,208
Income tax liability		10,756	-
Provisions	21	32,180	22,915
		<u>760,737</u>	<u>557,121</u>
Creditors - amounts falling due after one year			
Lease liabilities	20	32,578	34,801
Trade and other payables	19	13,357	106,982
		<u>45,935</u>	<u>141,783</u>
Total liabilities		<u><u>806,672</u></u>	<u><u>698,904</u></u>
Equity			
Called up share capital	22	25,000	25,000
Revaluation reserve		318	318
Retained earnings		74,627	75,763
Total equity		<u>99,945</u>	<u>101,081</u>
Total equity and liabilities		<u><u>906,617</u></u>	<u><u>799,985</u></u>

13 December 2024

The financial statements on pages 19 to 51 were approved by the Board of Directors on and signed on its behalf by:



.....
L Oxley, Director

The notes on pages 23 to 51 form an integral part of these financial statements.

Kier Construction Limited

Statement of Changes in Equity for the Year Ended 30 June 2024

	Share capital £000	Revaluation reserve £000	Retained earnings £000	Total £000
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	<u>25,000</u>	<u>318</u>	<u>75,763</u>	<u>101,081</u>
	Share capital £000	Revaluation reserve £000	Retained earnings £000	Total £000
At 1 July 2023	25,000	318	75,763	101,081
Profit for the year	-	-	16,244	16,244
Total comprehensive income	-	-	16,244	16,244
Dividends	-	-	(20,000)	(20,000)
Share based payment transactions	-	-	2,620	2,620
At 30 June 2024	<u>25,000</u>	<u>318</u>	<u>74,627</u>	<u>99,945</u>

The notes on pages 23 to 51 form an integral part of these financial statements.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024

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 new standards and amendments to standards are effective for the financial year ended 30 June 2024 onwards:

- IFRS 17 'Insurance Contracts';
- Narrow-scope amendments to IAS 1, Practice statement 2 and IAS 8 (published February 2021);
- Amendments to IAS 12 'Income Taxes' on deferred tax related to assets and liabilities arising from a single transaction;
- Amendments to IAS 12 'Income Taxes' for deferred tax arising from international tax reform and Pillar 2; and
- Amendments to FRS 101 in relation to adoption of IFRS 17 and international tax reform.

None of the above new standards or 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'.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

- Paragraphs 91 to 99 of IFRS 13 - 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 - 'Revenue from Contracts with Customers' (disaggregation of revenue, significant changes in contract assets and liabilities, details on transaction price allocation, timing of the satisfaction of performance obligations and significant judgements made in the application of IFRS 15).
- The requirements of paragraph 52 [lessee], the second sentence of paragraph 89, and paragraphs 90, 91 and 93 [lessor] of IFRS 16 - 'Leases' (lessee disclosures and lessor disclosures in relation to finance leases and lease income on operating leases).
- 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).
- The requirements of 88(c) and 88(d) of IAS 12, 'Income Taxes'.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

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.

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 21;
- 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;

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

- 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.

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.

Principal versus agent

The company has arrangements whereby it needs to determine if it acts as a principal or an agent as more than one party is involved in providing the goods and services to the customer. The company acts as a principal if it controls a promised good or service before transferring that good or service to the customer. The company is an agent if its role is to arrange for another entity to provide the goods or services. Factors considered in making this assessment are most notably the discretion the company has in establishing the price for the specified good or service, whether the company has inventory risk and whether the company is primarily responsible for fulfilling the promise to deliver the service or good.

This assessment of control requires judgement in particular in relation to certain service contracts. An example, is the provision of certain building services where the company may be assessed to be agent or principal dependent upon the facts and circumstances of the arrangement and the nature of the services being delivered.

Where the company is acting as a principal, revenue is recorded on a gross basis. Where the company is acting as an agent revenue is recorded at a net amount reflecting the margin earned.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

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 tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Property, plant and equipment

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

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

Depreciation

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

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

Intangible assets

Other intangible assets which comprise computer software are stated at cost less accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to administrative expenses in the income statement on a straight-line basis over the expected useful lives of the assets, which are principally as follows:

Asset class	Amortisation method and rate
Software Development	5 years straight line

Investments

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

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

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 non-current asset, amortised over the expected contract duration.

Leases

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

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

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

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

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

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

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

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

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

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

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 share-based payments in relation to the Sharesave and Long-Term Incentive Plan ('LTIP') schemes and are valued at the fair value of the awards at the date of grant and costed to the Company for which payroll the employee sits on. The fair values of options under these schemes are calculated using the Black-Scholes model apart from the total shareholder return element of the LTIP which is based on a Stochastic model. Awards that are subject to a post-vesting holding period are valued using the Finnerty model. The cost of each scheme is based on the fair value of the options spread on a straight-line basis over the relevant vesting period.

Shares purchased and held in trust in connection with the Company's share schemes are deducted from retained earnings. No gain or loss is recognised within the income statement on the market value of these shares compared with the original cost.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

Financial instruments

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

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

(a) Trade receivables and trade payables

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

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

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

(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:-

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

Financial assets at amortised cost

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

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

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

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

Financial 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.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

Impairment of financial assets

Measurement of Expected Credit Losses

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

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

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

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

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

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

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

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

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

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

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

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

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

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

2 Accounting policies (continued)

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 30 June 2024 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 2024 (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 37.

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 2024 (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 (judgement and estimate)

The level of estimation uncertainty in the Group's Construction business is reduced by the effect of its substantial portfolio and significant experience of the division's management team. The level of estimation is further reduced by the combination of the modest scale and short contract durations of the majority of the Group's projects. Nevertheless, the profit recognition in the Construction business is a critical estimate, due to the inherent uncertainties in and construction project over revenues and costs.

The level of estimation and uncertainty varies across each project within the Company. The Company operates around 300 sites (2023: 300) each year with an average project size of £19.3m (2023: £15.8m) and with average revenue in the year of £5.9m (2023: £4.4m). These projects typically operate under framework contracts where costs are known with a greater degree of certainty, based on the procurement methods and historical trends.

Construction revenue for the year was £1.6bn (2023: £1.3bn) with an associated adjusted operating profit margin 1.9% (2023: 1.6%).

The historic profit margins in the construction businesses typically range from 3.2% to 4.2%. A potential downside risk in margin would be 0.4% (2023: 1.0%). 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 £11.9m (2023: £5.6m).

b) Fire and cladding (judgement and estimate)

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 21). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses 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 2024 (continued)

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

Adjusting items (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 34. Determining whether an item is classified as an adjusting item requires significant judgement.

Total adjusting items of £17,643,000 were charged to the income statement in respect of continuing operations for the year ended 30 June 2024 (2023: £14,952,000). 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:

	2024	2023
	£000	£000
Revenue from construction contracts	<u>1,583,449</u>	<u>1,318,930</u>
Non-current assets		
	2024	2023
	£000	£000
Mobilisation costs	<u>1,023</u>	<u>2,017</u>
Current assets and liabilities		
	2024	2023
	£000	£000
Contract assets	84,687	115,973
Contract liabilities	<u>(96,706)</u>	<u>(28,249)</u>
Net unbilled contract (liabilities)/assets	<u>(12,019)</u>	<u>87,724</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 main framework agreement bids carried out in the prior years. Where costs are incurred regardless of whether a specific 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 2024 (continued)

5 Operating profit

Arrived at after charging/(crediting):

	2024	2023
	£000	£000
Depreciation expense	220	219
Depreciation on right of use assets - plant and equipment	2,930	4,421
Depreciation on right of use assets - land and buildings	3,903	3,990
Depreciation on right of use assets - Motor vehicles	1,973	1,615
Impairment loss	974	-
Research and development credit	(10,834)	(5,248)
Profit on disposal of property, plant and equipment and RoU Asset	(2,834)	(1,295)
Share based payment transactions	2,620	1,966

6 Adjusting items

	Operating profit		Profit before tax	
	2024	2023	2024	2023
	£000	£000	£000	£000
Reported profit	11,907	5,603	22,744	11,219
Legacy Contract Write off	1,644	-	1,644	-
Redundancy and people related costs	-	2,358	-	2,358
Legal compliance	15,025	12,584	15,025	12,584
Investment Impairment	974	-	974	-
Adjusted profit	29,550	20,545	40,387	26,161

The Company has incurred £15,025,000 (2023: £12,584,000) of fire and cladding costs, these consist of costs incurred rectifying legacy issue to comply with the latest Government guidance. The net charge of £15,025,000 includes credit of £11,800,000 in respect of insurance proceeds.

Legacy contract write off £1,644,000 (2023: £nil) relates to costs incurred for discontinued operations following the sale of its residential property building business ('Kier Living') in FY21, which were in the Company's name and therefore retained responsibility for the cost of defect rectification works relating to former Kier Living sites.

Investment impairment £974,000 (2023: £nil) relates to legacy investment in subsidiary which has now been liquidated (note 16).

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

7 Finance income

	2024 £000	2023 £000
Interest received from group undertakings	16,529	12,696
Other finance income	1,000	-
	17,529	12,696

8 Finance costs

	2024 £000	2023 £000
Interest paid to group undertakings	4,797	5,218
Interest expense on leases	1,895	1,862
	6,692	7,080

9 Staff costs

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

	2024 £000	2023 £000
Wages and salaries	179,219	149,827
Social security costs	18,811	16,049
Other Pension Costs	17,727	7,903
	215,757	173,779

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

	2024 No.	2023 No.
Monthly average number of persons employed by the Company during the year, including directors, was	2,269	2,010

10 Directors' remuneration

The directors' remuneration for the year was as follows:

	2024 £000	2023 £000
Salary and bonus	1,816	1,629
Pension	121	116
Benefits	55	45
	1,992	1,790

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

10 Directors' remuneration (continued)

In respect of the highest paid director:

	2024	2023
	£000	£000
Salary and bonus	1,003	778
Pension	33	37
Benefits	74	15
	1,110	830

There is one director (2023: 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

	2024	2023
	£000	£000
Audit of the financial statements	1,105	820

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

	2024	2023
	£000	£000
Current taxation		
UK corporation tax	8,013	3,729
UK corporation tax adjustment to prior periods	(1,086)	276
Total current income tax	6,927	4,005
Deferred taxation		
Arising from origination and reversal of temporary differences	(1,509)	(936)
Arising from changes in tax rates and laws	-	26
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	1,082	8
Total deferred taxation	(427)	(902)
Tax expense in the income statement	6,500	3,103

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (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 (2023: higher than the standard rate of corporation tax in the UK) of 25% (2023: 20.5%).

The differences are reconciled below:

	2024	2023
	£000	£000
Profit before tax	<u>22,744</u>	<u>11,219</u>
Corporation tax at standard rate	5,686	2,300
(Decrease)/increase in current tax from adjustment for prior periods	(4)	284
Increase from effect of revenues exempt from taxation	-	(1)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	1,068	494
Deferred tax expense relating to changes in tax rates or laws	-	26
Decrease from effect dividends from UK companies	<u>(250)</u>	<u>-</u>
Total tax charge	<u><u>6,500</u></u>	<u><u>3,103</u></u>

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

Deferred tax

Deferred tax movement during the year:

	At 1 July 2023	Recognised in income	At 30 June 2024
	£000	£000	£000
Accelerated tax depreciation	555	(42)	513
Tax losses carry-forwards	11,395	-	11,395
Other items	<u>6,955</u>	<u>469</u>	<u>7,424</u>
	<u><u>18,905</u></u>	<u><u>427</u></u>	<u><u>19,332</u></u>

Deferred tax movement during the prior year:

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

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (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.

Other items relates to the Research and Development Expenditure Credit ('RDEC') of £7.1m (2023: £6.6m) and short term timing difference £0.3m (2023: £0.3).

The Group has applied the temporary exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as detailed in amendments to IAS 12 issued by the IASB in May 2023.

13 Intangible assets

	Other intangible assets £000	Total £000
Cost		
Additions	4,197	4,197
At 30 June 2024	4,197	4,197
Accumulated Amortisation		
Carrying amount		
At 30 June 2024	4,197	4,197

The intangible assets relates to costs associated with the development of digital reporting software.

14 Property, plant and equipment

	Land and buildings £000	Furniture, fittings and equipment £000	Total £000
Cost			
At 30 June 2023	4,482	1,033	5,515
At 1 July 2023	4,482	1,033	5,515
Additions	-	(35)	(35)
Disposals	-	(17)	(17)
At 30 June 2024	4,482	981	5,463
Accumulated depreciation			

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

14 Property, plant and equipment (continued)

	Land and buildings £000	Furniture, fittings and equipment £000	Total £000
At 30 June 2023	867	520	1,387
At 1 July 2023	867	520	1,387
Charge for the year	107	113	220
Eliminated on disposal	-	(17)	(17)
At 30 June 2024	974	616	1,590
Carrying amount			
At 30 June 2024	3,508	365	3,873
At 30 June 2023	3,615	513	4,128

Included within the net book value of land and buildings above is £3,508,000. (2023: £3,615,000) in respect of freehold land and buildings.

15 Right of use assets

	Land and buildings £000	Motor vehicles £000	Plant and equipment £000	Total £000
Carrying amount				
At 1 July 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	(3,990)	(1,615)	(4,421)	(10,026)
At 30 June 2023	30,791	3,937	3,378	38,106
Additions	2,146	3,074	2,744	7,964
Disposals	(2,894)	(347)	(1,347)	(4,588)
Depreciation charge for the year	(3,903)	(1,973)	(2,930)	(8,806)
At 30 June 2024	26,140	4,691	1,845	32,676

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

16 Investments

Subsidiaries	£000
Cost or valuation	
At 1 July 2022	974
At 30 June 2023	974
Impairment	(974)
At 30 June 2024	-
Carrying amount	
At 30 June 2024	-
At 30 June 2023	974

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

Name of subsidiary	Principal activity	Registered office ¹	Proportion of ownership interest and voting rights held	
			2024	2023
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%
Clearbox Limited (formerly Wallis Limited)	Dormant	1	100%	100%
Wallis Western Limited	Dormant	1	100%	100%

¹see list of registered offices below

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

16 Investments (continued)

Registered offices

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

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

Joint operations

Hercules

The Company has a material joint operation, Hercules, in which it holds a 50% share in the ownership (2023: 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 (2023: 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 (2023: 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 (2023: 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 McAvoy JV

The Company has a material joint operation, Kier McAvoy JV, in which it holds a 50% share in the ownership (2023: %). The activities undertaken by this operation are a joint operation between Kier Construction Limited and McAvoy Modular Offsite Limited. The trading address of the joint operation is 2 Ferguson Road, Knockmore Hill Industrial Estate, Lisburn, Northern Ireland, BT28 2FW.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

16 Investments (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	
			2024	2023
Kier Graham Defence Limited	Construction	2nd Floor, Optimum House, Clippers Quay, Salford, M50 3XP	50%	50%

17 Trade and other receivables

	2024 £000	2023 £000
Trade receivables	42,694	17,143
Provision for impairment of trade receivables	(56)	(664)
Net trade receivables	42,638	16,479
Receivables from related parties	118	1,040
Prepayments	1,945	4,270
Client retentions	67,183	56,315
Other receivables	30,732	7,155
	142,616	85,259
Less non-current portion	(29,021)	(18,205)
	<u>113,595</u>	<u>67,054</u>

Trade receivables of £42,638,000 (2023: £16,479,000) are stated after provisions for impairment of £56,000 (2023: £664,000).

At 30 June 2024, trade and other receivables include client retentions of £67,183,000 (2023: £56,315,000) relating to construction contracts of which £29,021,000 (2023: £18,205,000) are due over one year.

Other receivables of £30,732,000 (2023: £7,155,000) increase is due to insurance claims of £13,376,000 (2023: £nil) and the reclassification of RDEC income £12,324,000 (2023: £nil) which was previously offset against corporation tax.

18 Cash and cash equivalents

	2024 £000	2023 £000
Cash and cash equivalents	<u>618,213</u>	<u>532,777</u>

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

19 Trade and other payables

	2024	2023
	£000	£000
Current		
Trade payables	170,974	156,265
Accrued expenses	264,839	261,459
Amounts due to group undertakings	108,197	7,174
Social security and other taxes	68,603	70,205
Other payables	732	2,646
Total current trade and other payables	613,345	497,749

Amounts due to group undertakings £108,197,000 (2023: £7,174,000) has increased due to a loan taken out in June 2020 and maturing in June 2025 of £99,438,000 (2023: £95,613,000), with interest bearing at a rate of 4% (2023: 4%) being added annually, therefore moving from non-current to current. The remainder relates to other inter company creditors of £8,759,000 (2023: £7,174,000).

	2024	2023
	£000	£000
Non-current		
Subcontract retentions	13,357	11,369
Amounts due to group undertakings	-	95,613
Total non-current trade and other payables	13,357	106,982

Amounts due to group undertakings now stated as £nil (2023: £95,613,000) is due to the loan taken out in June 2020 and maturing in June 2025 being moved from non-current to current.

20 Lease liabilities

Leases included in liabilities

	2024	2023
	£000	£000
Current		
	7,750	8,208
Non-current	32,578	34,801
	40,328	43,009

Lease liabilities maturity analysis

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

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

20 Lease liabilities (continued)

	2024 £000	2023 £000
Less than one year	9,382	9,842
One to two years	7,108	7,039
Two to three years	6,020	5,692
Three to four years	5,098	4,902
Four to five years	4,177	4,432
Over five years	16,001	19,424
	<u>47,786</u>	<u>51,331</u>
Total gross payments		
Impact of finance expenses	(7,458)	(8,322)
	<u>40,328</u>	<u>43,009</u>
Carrying amount of liability		
Total cash outflows related to leases		
	2024 £000	2023 £000
Principal elements of lease payments	10,610	11,356
Interest	1,895	1,862
	<u>12,505</u>	<u>13,218</u>
Total cash outflow		

21 Provisions

	Other provisions £000	Total £000
At 1 July 2023	22,915	22,915
Increase in existing provisions	31,089	31,089
Provisions used	(21,824)	(21,824)
	<u>32,180</u>	<u>32,180</u>
At 30 June 2024		
Current liabilities	<u>32,180</u>	<u>32,180</u>

The provision relates to Fire and Cladding £24,111,000 (2023: £15,500,000) and Lisburn £2,000,000 (2023: £6,800,000), which relates to provision for future costs in relation to the rebuild of Block A following fire damage. The Winchester provision relating to rectification works has increased to £6,069,000 (2023: £600,000) in the year.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

22 Called up share capital

Allotted, called up and fully paid shares

	No.	2024 £	No.	2023 £
Ordinary Shares of £1 each	25,000,000	25,000,000	25,000,000	25,000,000

23 Pension and other schemes

Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £17,727,000 (2023: £7,903,000). All contributions were paid as at the balance sheet date.

24 Share-based payments

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

Scheme description

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

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

2,162 (2023: 7,037) Sharesave options were exercised in the year by participants employed by the Company, with a weighted average share price at the date of exercise of £1.295 (2023: £0.72).

The options outstanding at 30 June 2024, held by employees of the Company, had exercise prices (adjusted for rights/share issues) ranging from £0.55 to £0.96 (2023 - from £0.55 to £0.96) and a weighted average remaining contractual life of 1.4 years (2023 - 1.6 years).

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

24 Share-based payments (continued)

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

Scheme description

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

2,557,134 new options were granted under the LTIP scheme in the year (2023: 2,216,393).

The options outstanding at 30 June 2024, held by employees of the Company, had exercise price of £Nil (2023 - £Nil) and a weighted average remaining contractual life of 1.4 years (2023 - 1.2 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 (2023: Nil) by participants employed by the Company, with a weighted average share price at date of exercise of £Nil (2023 - £Nil).

There were no CSAP options outstanding at 30 June 2024. The options outstanding at 30 June 2024 had an exercise price of £Nil and a weighted average remaining contractual life of 0.3 years.

25 Contingent liabilities

Guarantees and contingent liabilities

The Company has given guarantees and entered into counter-indemnities in respect of bonds relating to certain of the Company's own contracts.

Provisions are made for the Directors' best estimate of known legal claims, investigations and legal actions relating to the Company which are considered more likely than not to result in an outflow of economic benefit. If the Directors consider that a claim, investigation or action relating to the Company is unlikely to succeed, no provision is made. If the Directors cannot make a reliable estimate of a potential, material obligation, no provision is made but details of the claim are disclosed.

Kier Construction Limited

Notes to the Financial Statements for the Year Ended 30 June 2024 (continued)

25 Contingent liabilities (continued)

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 21). No provision has been made where an obligation has not been established.

These estimates may be updated as further inspections are completed and as work progresses 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.

26 Parent and ultimate parent undertaking

The Company's immediate parent is Kier Limited.

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

Relationship between entity and parents

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

The address of Kier Group plc is:
2nd Floor, Optimum House, Clippers Quay, Salford. M50 3XP
www.kier.co.uk.

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

The address of Kier Group plc is:
2nd Floor, Optimum House, Clippers Quay, Salford. M50 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 2024 (continued)

27 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 £Nil (2023: £110,000) of revenue was passed through from Kier Graham Defence Limited to Kier Construction Limited.

At year end, there is a £1,288,000 (2023: £1,288,000) retention balance.

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.