

Registration number: 01510892

McNicholas Construction Services Limited

Annual Report and Financial Statements

for the Year Ended 30 June 2023

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McNicholas Construction Services Limited

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McNicholas Construction Services Limited

Company Information

Directors A Bradshaw
B Mendonca
P Jackson

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

McNicholas Construction Services Limited

Strategic Report for the Year Ended 30 June 2023

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

Fair review of the business

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

The principal activity of the Company is an infrastructure services provider which designs and delivers a wide range of essential front-line infrastructure services.

Revenue from continuing operations for the year was £69.1m (2022: £88.8m), a decrease of 22.2%. The majority of this decrease is due to exiting from loss making contracts in the prior year. This is reflected in an improvement in Gross Margin to -1.5% (2022: -8.3%). The Company expects this positive trend to continue in 2024. Revenue is expected to gradually transfer over the next few years to a fellow Group company, Kier Integrated Services Limited, as some existing contracts are renewed in that entity.

The Company made a loss before tax of £5.7m (2022: loss before tax £17.5m). As a result of the loss in the year the Company's net liability have increased from £11.3m to £22.7m. The majority of this increase is due to operating losses, and a write-off of the deferred tax asset on losses carried forward.

Corporate responsibility

Please see the Environmental, Social and Governance ('ESG') report 'Building for a sustainable world' in the Kier Group plc 2023 Annual Report (pages 42 to 61 inclusive), which is available at www.kier.co.uk, for details of the Group's corporate responsibility activities. As a member of the Group, the Company has participated in these activities.

Stakeholders

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

Employees, customers, shareholders, supply chain partners, banks, lenders, sureties and insurers, pension trustees, joint venture partners and the UK government are all key stakeholders for the Group. As part of the decision-making process, Kier looks at how it will potentially impact its stakeholders. Engagement with stakeholders is seen as key to the delivery of Kier's purpose and strategy and therefore its long-term sustainable success. Read more on our engagement with key stakeholders in the Kier Group plc 2023 Annual Report on pages 70 to 73.

McNicholas Construction Services Limited

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

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 Group has well-established risk management and internal control systems to manage them.

On behalf of the Kier Group, 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. The principal risks as relevant to the Company are set out below, together with a summary of the actions taken to mitigate each risk.

Health and safety

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

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

Potential impact:

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

Mitigating actions:

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

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.

McNicholas Construction Services Limited

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

Mitigating actions:

- Effective cash forecasting and working capital management in combination with continued monitoring and prudent financial planning to ensure cash generation and covenant compliance is maintained;
- Continued collaborative engagement with key stakeholders;
- Through financial planning the Company ensures that appropriate levels of headroom under committed facilities and their financial covenants are in place to accommodate reasonable downside; and
- The Group's revolving credit facility is scheduled to expire in January 2025. The Board is confident in the Group's ability to access a number of available funding markets to achieve an appropriate capital structure and would expect to complete its re-financing in the current financial year.

Maintaining an order book within selected markets

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

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

Potential impact:

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

Mitigating actions:

- To continue to secure long-term frameworks within each of our business divisions;
- Tailoring the Company's offer to meet customer needs; and
- Maintaining an efficient cost base.

Contract management of changes

Principal risk: failure to manage contracts effectively throughout the project lifecycle.

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

Potential impact:

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

Mitigating actions:

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

People

Principal risk: failure to attract and retain key employees.

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

Potential impact:

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

McNicholas Construction Services Limited

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

Mitigating actions:

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

Supply chain

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

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

Potential impact:

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

Mitigating actions:

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

Strategy

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

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

Potential impact:

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

Mitigating actions:

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

IT security, resilience, cyber and data protection

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

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

McNicholas Construction Services Limited

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

Potential impact:

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

Mitigating actions:

- Staff mandatory training, awareness and phishing campaigns;
- Vulnerabilities, access and incident management;
- ISO 27001 and cyber essentials accreditation;
- Information security cyber business continuity plan;
- System alerts;
- Patching/updates and monitoring;
- Data loss prevention tools; and
- Partners and suppliers follow Kier Group minimum standards regarding cyber, security and data.

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:

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

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.

McNicholas Construction Services Limited

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

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.

Approved by the Board on 18 December 2023 and signed on its behalf by:

Paul Jackson

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P Jackson
Director

McNicholas Construction Services Limited

Directors' Report for the Year Ended 30 June 2023

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

Directors of the company

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

A Bradshaw

B Mendonca

M N Pendlebury-Green (resigned 1 July 2023)

C Thomas (resigned 31 March 2023)

P Jackson (appointed 1 April 2023)

Dividends

No dividend was paid in the year (2022: None) and the directors do not recommend a final dividend in respect of the year.

Risk management

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 Kier Group 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 Kier 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, 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.

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

The Company relies on Kier Group borrowing and bonding facilities.

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

Credit risk is managed centrally by Kier Group. Trade and other receivables and contract assets included in the balance sheet are stated net of any expected credit loss (ECL) provision.

The Company considers that it is not exposed to significant price risk.

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

Employee engagement

For information on the Group's activities with regards to employee engagement, which include the employees of the Company, please see the Employee wellbeing and engagement section on pages 57 to 58 of the ESG Report 'Building for a sustainable world' in the 2023 Annual Report of Kier Group plc (available at www.kier.co.uk).

Employment of disabled persons

Kier believes that everyone deserves to have their voice heard and that the different experiences people bring make Kier a better business. For information on the Group's progress with regards to Equality & Diversity, please see the Equality & Diversity section on pages 54 and 55 of the 2023 Annual Report of Kier Group plc (available at www.kier.co.uk).

Engagement with suppliers, customers and others

Information on the Group's engagement with suppliers, customers and others during the financial year can be found on pages 70 to 73 and 90 of the 2023 Annual Report of Kier Group plc (available at www.kier.co.uk).

Going concern

These financial statements have been prepared on a going concern basis as the Company has received a letter of support from the directors of its ultimate parent undertaking, Kier Group plc, pledging the necessary support to enable the company to meet its liabilities and obligations as and when they fall due for a period of at least 12 months from the date of signing the financial statements.

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.

Reappointment of independent auditors

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

McNicholas Construction Services Limited

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

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 directors are 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.

Approved by the Board on 18 December 2023 and signed on its behalf by:

Paul Jackson

.....
P Jackson
Director

Independent auditors' report to the members of McNicholas Construction Services Limited

Report on the audit of the financial statements

Opinion

In our opinion, McNicholas Construction Services Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 June 2023 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Statement of Financial Position as at 30 June 2023; the Income Statement, the Statement of Comprehensive Income, and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 30 June 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety legislation, payroll legislation and data protection legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and taxation legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the manipulation of financial statement line items through manual journal postings and the use of inappropriate assumptions or management bias in determining accounting estimates. Audit procedures performed by the engagement team included:

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

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Diane Walmsley (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
19 December 2023

McNicholas Construction Services Limited

Income Statement for the Year Ended 30 June 2023

		Year ended 30 June 2023 £ 000	Year ended 30 June 2022 £ 000
Revenue	4	69,097	88,755
Cost of sales		<u>(70,122)</u>	<u>(96,108)</u>
Gross loss		(1,025)	(7,353)
Administrative expenses		<u>(1,819)</u>	<u>(7,761)</u>
Operating loss	5	(2,844)	(15,114)
Finance costs	6	<u>(2,867)</u>	<u>(2,420)</u>
Loss before taxation		(5,711)	(17,534)
Income tax (expense)/credit	11	<u>(757)</u>	<u>3,511</u>
Loss for the financial year		<u><u>(6,468)</u></u>	<u><u>(14,023)</u></u>
Supplementary information			
Adjusted ¹ operating loss	25	(2,730)	(14,494)
Adjusted ¹ loss before tax	25	(5,597)	(16,914)

¹ Reference to 'adjusted' excludes adjusting items, see notes 2 and 25.

The notes on pages 19 to 38 form an integral part of these financial statements.

McNicholas Construction Services Limited

Statement of Comprehensive Income for the Year Ended 30 June 2023

	2023	2022
	£ 000	£ 000
Loss for the financial year	<u>(6,468)</u>	<u>(14,023)</u>
Total comprehensive expense for the year	<u><u>(6,468)</u></u>	<u><u>(14,023)</u></u>

The notes on pages 19 to 38 form an integral part of these financial statements.

McNicholas Construction Services Limited

(Registration number: 01510892)

Statement of Financial Position as at 30 June 2023

	Note	2023 £ 000	2022 £ 000
Non-current assets			
Deferred tax assets	11	4,433	8,696
Intangible assets	12	178	219
Property, plant and equipment	13	57	109
Right of use assets	14	504	1,298
		<u>5,172</u>	<u>10,322</u>
Current assets			
Contract assets	4	17,613	14,287
Inventories	10	1,806	1,871
Income tax asset	11	9,251	4,631
Trade and other receivables	18	41,488	41,882
		<u>70,158</u>	<u>62,671</u>
Total assets		<u>75,330</u>	<u>72,993</u>
Current liabilities			
Contract liabilities	4	-	(37)
Trade and other payables	15	(57,570)	(19,216)
Provisions	16	-	(240)
Bank overdraft	17	(34,978)	(32,006)
Current portion of long term lease liabilities	22	(408)	(831)
		<u>(92,956)</u>	<u>(52,330)</u>
Non-current liabilities			
Trade and other payables	15	-	(31,516)
Long term lease liabilities	22	(106)	(496)
		<u>(106)</u>	<u>(32,012)</u>
Total liabilities		<u>(93,062)</u>	<u>(84,342)</u>
Net liabilities		<u>(17,732)</u>	<u>(11,349)</u>
Equity			
Called up share capital	21	36,000	36,000
Accumulated losses		(53,732)	(47,349)
Total equity		<u>(17,732)</u>	<u>(11,349)</u>

The financial statements on pages 15 to 38 were approved by the Board of Directors on 18 December 2023 and signed on its behalf by:

Paul Jackson

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P Jackson
Director

The notes on pages 19 to 38 form an integral part of these financial statements.

McNicholas Construction Services Limited

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

	Called up share capital £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 July 2021	36,000	(33,443)	2,557
Loss for the financial year	-	(14,023)	(14,023)
Total comprehensive expense for the year	-	(14,023)	(14,023)
Share based payment transactions	-	117	117
At 30 June 2022	<u>36,000</u>	<u>(47,349)</u>	<u>(11,349)</u>

	Called up Share capital £ 000	Accumulated losses £ 000	Total equity £ 000
At 1 July 2022	36,000	(47,349)	(11,349)
Loss for the year	-	(6,468)	(6,468)
Total comprehensive expense	-	(6,468)	(6,468)
Share based payment transactions	-	85	85
At 30 June 2023	<u>36,000</u>	<u>(53,732)</u>	<u>(17,732)</u>

The notes on pages 19 to 38 form an integral part of these financial statements.

McNicholas Construction Services Limited

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

1 General information

The Company is a private company limited by share capital incorporated in England and Wales and domiciled in the 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 Reduced Disclosure Framework and with the Companies Act 2006, as applicable to companies using FRS101.

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

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

Summary of disclosure exemptions

In these financial statements, the company has taken advantage of the disclosure exemptions available under FRS 101 in relation to share-based payment, business combinations, non-current assets held for sale, financial instruments, fair value measurements, capital management, revenue from contracts with customers, presentation of comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment property, presentation of a cash-flow statement, the effects of new standards not yet effective, impairment of assets and disclosures in respect of the compensation of key management personnel and of transactions with a management entity that provides key management personnel services to the company.

Going concern

The financial statements have been prepared on a going concern basis. The Company's ability to continue as a going concern is reliant on the Kier Group. The Directors have received written confirmation that Kier Group plc will 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.

McNicholas Construction Services Limited

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

2 Accounting policies (continued)

Changes in accounting policy

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

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

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

Revenue and profit recognition

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

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

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

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

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

McNicholas Construction Services Limited

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

2 Accounting policies (continued)

Revenue and profit from services rendered is recognised over time as the service is performed.

Progress on capital works and infrastructure renewal projects is measured using costs incurred as a percentage of the estimated full costs of completing the performance obligation.

Where the contract includes bundled services, the transaction price is allocated to each performance obligation identified in the contract based on the relative stand-alone selling prices of each of the performance obligations. Revenue is then recognised independently when each of the performance obligations is satisfied.

Any variable consideration (e.g. performance bonus) attributable to a single performance obligation is allocated entirely to that performance obligation. Where variable consideration is attributable to the entire contract and is not specific to part of the contract, the consideration is allocated based on the stand-alone selling prices of each of the performance obligations within the contract.

Service contracts are reviewed monthly to assess their future operational performance and profitability.

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 UK where the company operates and generates taxable income.

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

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

Intangible assets

Intangible assets which comprises internally generated software development costs are stated at cost less accumulated amortisation and impairment losses.

Internally generated intangible assets developed by the Company are recognised only if all of the following conditions are met:

- an asset is created that can be identified;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

Other expenditure is written off in the period in which it is incurred.

McNicholas Construction Services Limited

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

2 Accounting policies (continued)

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

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction over their estimated useful lives, as follows:

Asset class	Depreciation method and rate
Buildings and Improvements	Over the life of the lease
Other property, plant and equipment - contracts	Over the life of the contract
Other property, plant and equipment - non contract	10% - 50% straight line

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method.

At each reporting date, inventories are assessed for impairment. If inventory is impaired, the carrying amount is reduced to its selling price less costs to complete and sell; the impairment loss is recognised immediately in profit or loss.

Provisions

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the income statement in the year that the company becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in 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.

Defined benefit pension obligation

The immediate parent undertaking operates a defined benefit pension scheme and pays additional contributions to eliminate the funding shortfall. These additional contributions are recharged to the company and are recognised as an expense in the income statement when they are paid.

McNicholas Construction Services Limited

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

2 Accounting policies (continued)

Defined contribution pension obligation

A defined contribution plan is a pension plan under which fixed contributions are paid into a separate entity and has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans contributions are paid to publicly or privately administered pension insurance plans on a mandatory or contractual basis. The contributions are recognised as employee benefit expense when they are due. If contribution payments exceed the contribution due for service, the excess is recognised as an asset.

Financial instruments

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

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

(a) Trade receivables and trade payables

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

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

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

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

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

(b) Cash and cash equivalents

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

(c) Bank and other borrowings

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

McNicholas Construction Services Limited

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

2 Accounting policies (continued)

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.

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.

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

McNicholas Construction Services Limited

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

2 Accounting policies (continued)

Adjusting items

IAS 1 permits an entity to present additional information for specific items to enable users to better assess the entity's financial performance. The directors have considered the requirements of applicable accounting standards, along with additional guidance around alternative performance measures (APMs) and believe it is appropriate to inform users regarding various items and disclose those items which are deemed one-off, material or non-recurring in size or nature, in alignment with the Group's internal management reporting. As such, the Company is disclosing as supplementary information an 'Adjusted Profit' APM which is reconciled to statutory profit in the notes to the financial statements.

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

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

A full reconciliation from statutory numbers to adjusted profit measures has been presented in note 25 on page 38.

Finance income and costs policy

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

Borrowing costs are capitalised where the Company constructs qualifying assets. All other borrowing costs are written off to the income statement as incurred.

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

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.

McNicholas Construction Services Limited

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

2 Accounting policies (continued)

Share based payments

Employees of the Company participate in Kier Group equity-settled, share-based compensation plans, under which the Company receives services from employees as consideration for equity instruments (options) of Kier Group plc. The fair value of the employee services received is measured by reference to the estimated fair value at the grant date of equity instruments granted and is recognised as an expense over the vesting period. The estimated fair values of the options granted are calculated using the Black Scholes option pricing model. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. The amount expensed is funded by means of a capital contribution from Kier Group plc which is credited directly to equity.

3 Critical accounting judgements and key sources of estimation uncertainty

To be able to prepare financial statements according to generally accepted accounting principles, management must make estimates and assumptions that affect the asset and liability items and revenue and expense amounts recorded in the financial statements. These estimates are based on historical experience and various other assumptions that management and the Board of directors believe are reasonable under the circumstances. The results of this form the basis for making judgements about the carrying value of assets and liabilities that are not readily available from other sources.

Areas requiring critical estimates and judgements that may significantly impact on the Company's earnings and financial position are as follows:

Revenue recognition

The key judgements and estimates relating to determining the revenue of material contracts is the recoverability of claims and variations in accordance with IFRS 15.

The Company operates in an industry in which contracts allow a route to recovery that may be disputed or become subject to contract resolution procedures. The settlement process can be time consuming and can result in an outcome that varies from the amount claimed. These contract issues may exist in the supply chain, or with customers.

These estimates include the expected recovery of costs arising from the following: variations to the contract requested by the customer, compensation events, and claims made both by and against the Group for delays or other additional costs arising or projected to arise.

The Company's accounting policy is to recognise additional contractual amounts receivable from customers only when these amounts are considered highly probable of no significant reversal. Claims receivable from third parties (other than the Company's customers) are recognised only when they are determined to be 'virtually certain' of recoverability.

Provisions for loss making contracts

In accordance with accounting standards, provision is made for losses incurred or foreseen in bringing a contract to completion as soon as they become apparent. In assessing the need for provisions for future losses on such contracts the Board considers a number of areas including: underlying contract losses; operational efficiency gains; claims opportunities and discussions with clients as well as probability assessment in relation to the likely outcome of these factors and the appropriate discount rate. Calculations have been prepared applying the forecast performance and other key assumptions to support the estimated provision that has been made.

McNicholas Construction Services Limited

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

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

Deferred tax

The deferred tax balance as at the year end has been recognised at 25% which is the enacted corporation tax rate that will be effective from 1 April 2023. Judgement is required in determining the overall provision for income taxes. Deferred tax liabilities are generally provided for in full and deferred tax assets are recognised to the extent that it is judged probable that future taxable profit will arise against which the temporary differences will be utilised. In particular, the Company has exercised judgement in recognising a deferred tax asset of £4.4m in respect of tax losses (2022: £8.7m). Based on the Kier Group's forecasts, it is considered probable that this will be utilised over a reasonable timeframe.

4 Revenue

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

	2023	2022
	£ 000	£ 000
Rendering of services	69,097	88,755

All revenue arose within the United Kingdom.

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.

Current assets and liabilities

	2023	2022
	£ 000	£ 000
Contract assets	17,613	14,287
Contract liabilities	-	(37)
Net unbilled contract assets	17,613	14,250

The Contract Asset value above is shown net of £0.0m (2022: £0.0m) impairment recognised against older elements of some contract assets due to uncertainty around recoverability.

Revenue recognised in the period from:

	2023	2022
	£ 000	£ 000
Amounts included in contract liability at the beginning of the period	37	3,303

McNicholas Construction Services Limited

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

5 Operating loss

Arrived at after charging

	Year ended 30 June 2023 £ 000	Year ended 30 June 2022 £ 000
Depreciation expense	77	148
Depreciation on right of use assets - land and buildings	171	171
Depreciation on right of use assets - motor vehicles	663	763
Depreciation on right of use assets - plant and equipment	-	33
Amortisation expense	<u>45</u>	<u>-</u>

6 Finance costs

	2023 £ 000	2022 £ 000
Interest paid to group undertakings	2,833	2,354
Interest expense on leases	<u>34</u>	<u>66</u>
	<u>2,867</u>	<u>2,420</u>

7 Staff costs

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

	2023 £ 000	2022 £ 000
Wages and salaries	23,338	28,714
Social security costs	83	1,710
Pension costs, defined contribution scheme	141	199
Share-based payment expenses	<u>85</u>	<u>118</u>
	<u>23,647</u>	<u>30,741</u>

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

	2023 No.	2022 No.
Production	414	574
Administration and support	<u>3</u>	<u>21</u>
	<u>417</u>	<u>595</u>

McNicholas Construction Services Limited

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

8 Directors' remuneration

None of the company directors were employed directly by the Company during the current or preceding year. All directors were remunerated through other Kier Group companies. Any apportionment of their remuneration by time, in respect of performing their duties as directors of the company, would be immaterial.

The directors receive emoluments from other group companies for other services rendered to the Group.

In respect of the highest paid director:

	2023	2022
	£ 000	£ 000
Remuneration	-	808
	<u>-</u>	<u>808</u>

The Directors' remuneration includes redundancy costs incurred during the year of £Nil (2022: £399,000) which have been classed as an adjusting item, see note 25, and are included in the disclosures above.

9 Auditors' remuneration

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

10 Inventories

	2023	2022
	£ 000	£ 000
Raw materials and consumables	1,806	1,871
	<u>1,806</u>	<u>1,871</u>

The cost of inventories recognised as an expense in the year amounted to £12,354,000 (2022 - £14,312,000). This is included within cost of sales.

McNicholas Construction Services Limited

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

11 Income tax expense/(credit)

Tax expense/(credit) in the income statement

	2023	2022
	£ 000	£ 000
Current taxation		
UK corporation tax	(2,382)	(3,361)
UK corporation tax adjustment to prior periods	<u>(1,125)</u>	<u>(271)</u>
	<u>(3,507)</u>	<u>(3,632)</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	2,312	66
Arising from changes in tax rates and laws	348	49
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>1,604</u>	<u>6</u>
Total deferred taxation	<u>4,264</u>	<u>121</u>
Tax expense/(credit) in the income statement	<u><u>757</u></u>	<u><u>(3,511)</u></u>

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

The differences are reconciled below:

	2023	2022
	£ 000	£ 000
Loss before tax	<u>(5,711)</u>	<u>(17,534)</u>
Corporation tax at standard rate	(1,171)	(3,332)
Increase/(decrease) in current tax from adjustment for prior periods	479	(265)
Increase from effect of expenses not deductible in determining taxable profit (tax loss)	20	37
Decrease from tax losses for which no deferred tax asset was recognised	1,081	-
Deferred tax expense relating to changes in tax rates or laws	<u>348</u>	<u>49</u>
Total tax expense/(credit)	<u><u>757</u></u>	<u><u>(3,511)</u></u>

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

McNicholas Construction Services Limited

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

11 Income tax expense/(credit) (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 July 2022 £ 000	Recognised in income £ 000	At 30 June 2023 £ 000
Accelerated tax depreciation	968	(153)	815
Tax credits	866	(866)	-
Tax losses carry-forwards	6,802	(3,184)	3,618
Other items	60	(60)	-
	<u>8,696</u>	<u>(4,263)</u>	<u>4,433</u>

Deferred tax movement during the prior year:

	At 1 July 2021 £ 000	Recognised in income £ 000	At 30 June 2022 £ 000
Accelerated tax depreciation	1,181	(213)	968
Tax credits	745	121	866
Tax losses carry-forwards	6,802	-	6,802
Other items	90	(30)	60
	<u>8,818</u>	<u>(122)</u>	<u>8,696</u>

The directors consider it is probable there will be sufficient taxable profits in the foreseeable future within the Kier Group to enable the recovery of the amount of deferred tax assets that have been recognised in the financial statements.

At the balance sheet date, the Company had unused losses of £9,764,000 (2022: £9,764,000) and unused tax credits of £1,080,000 (2022: Nil) available for offset against future profits and taxes. No deferred tax has been recognised in respect of these losses due to the uncertainty that there will be future taxable profits on which these losses could be utilised against.

McNicholas Construction Services Limited

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

12 Intangible assets

	Software £ 000	Total £ 000
Cost or valuation		
At 1 July 2022	225	225
Additions	4	4
	<u>229</u>	<u>229</u>
At 30 June 2023	<u>229</u>	<u>229</u>
Accumulated amortisation and impairment		
At 1 July 2022	6	6
Amortisation charge	45	45
	<u>51</u>	<u>51</u>
At 30 June 2023	<u>51</u>	<u>51</u>
Carrying amount		
At 30 June 2022	<u>219</u>	<u>219</u>
At 30 June 2023	<u>178</u>	<u>178</u>

13 Property, plant and equipment

	Property, plant and equipment £ 000	Total £ 000
Cost or valuation		
At 1 July 2022	723	723
Additions	44	44
Disposals	(487)	(487)
	<u>280</u>	<u>280</u>
At 30 June 2023	<u>280</u>	<u>280</u>
Accumulated depreciation		
At 1 July 2022	614	614
Charge for the year	77	77
Eliminated on disposal	(468)	(468)
	<u>223</u>	<u>223</u>
At 30 June 2023	<u>223</u>	<u>223</u>
Carrying amount		
At 30 June 2022	<u>109</u>	<u>109</u>
At 30 June 2023	<u>57</u>	<u>57</u>

McNicholas Construction Services Limited

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

14 Right of use assets

	Buildings £ 000	Motor vehicles £ 000	Plant and equipment £ 000	Total £ 000
Carrying amount				
At 1 July 2021	397	2,034	123	2,554
Additions	47	332	-	379
Disposals	-	(578)	(90)	(668)
Depreciation charge for the year	<u>(171)</u>	<u>(763)</u>	<u>(33)</u>	<u>(967)</u>
At 30 June 2022	273	1,025	-	1,298
Additions	-	263	-	263
Disposals	-	(223)	-	(223)
Depreciation charge for the year	<u>(171)</u>	<u>(663)</u>	<u>-</u>	<u>(834)</u>
At 30 June 2023	<u>102</u>	<u>402</u>	<u>-</u>	<u>504</u>

15 Trade and other payables

	2023 £ 000	2022 £ 000
Current		
Trade payables	11,129	11,118
Accrued expenses	3,306	2,325
Amounts due to related parties	42,750	3,205
Social security and other taxes	-	1,992
Other payables	<u>385</u>	<u>576</u>
Total current trade and other payables	<u>57,570</u>	<u>19,216</u>
Non-current		
Amounts due to related parties	<u>-</u>	<u>31,516</u>

Amounts due to related parties includes an interest bearing loan plus unpaid interest from Kier Limited which was repayable on 30 November 2023 of £28.9m (2022: £27.6m) fixed at 4% per annum.

Subsequent to the balance sheet date, on 12 December 2023 the Loan Agreement was modified to extend the date by which the loans made under the Loan Agreement are required to be repaid to 30 November 2028. Although the loan is due in 2028, it has been classified as current in these financial statements as the loan was due within 12 months as at the balance sheet date. The Loan term modification is a non-adjusting post balance sheet event in accordance with IAS 10.

All other amounts due to related parties are unsecured, repayable on demand with an interest rate of 0%.

McNicholas Construction Services Limited

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

16 Provisions

Other provisions

Other provisions as at 2023 £Nil (2022: £240,000) comprise amounts relating to property dilapidation provisions.

17 Bank overdraft

	2023	2022
	£ 000	£ 000
Current loans and borrowings		
Bank overdrafts	<u>34,978</u>	<u>32,006</u>

18 Trade and other receivables

	2023	2022
	£ 000	£ 000
Current		
Trade receivables	3,995	6,856
Loans to related parties	35,000	35,000
Prepayments	45	-
Social security and other taxes	2,424	-
Other receivables	<u>24</u>	<u>26</u>
	<u><u>41,488</u></u>	<u><u>41,882</u></u>

Inter-company receivable is receivable from the direct parent, the amount is on call, non interest bearing and there are no specific securities held in relation to this balance.

McNicholas Construction Services Limited

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

19 Share-based payments

Conditional Share Award ('CSAP')

Scheme description

The Group had a conditional share award plan (CSAP) under which senior employees of the Company receive 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 year (2022: 20,067) by participants employed by the Company, with a weighted average share price at date of exercise of £0.00 (2022: £1.08).

There were no CSAP options outstanding at 30 June 2023 (2022: Nil).

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.

2,125 Sharesave options were exercised in the year (2022: 2,219) by participants employed by the Company with a weighted average share price at the date of exercise of £0.686 (2022: £1.140).

The options outstanding at 30 June 2023, held by employees of the Company, had rights-adjusted exercise prices ranging from £0.55 to £0.96 (2022 - from £0.56 to £6.47) and a weighted average remaining contractual life of 1.7 years (2022 - 1.8 years).

McNicholas Construction Services Limited

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

19 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.

183,750 share options vested under the LTIP schemes during the current year (2022: Nil) with a weighted average share price at the date of exercise £0.62 (2022: Nil).

The options outstanding at 30 June 2023, held by employees of the Company, had exercise price of £Nil (2022 - £Nil) and a weighted average remaining contractual life of 0.5 years (2022: 0.9 years).

20 Contingent liabilities

The company has given unlimited cross guarantees in respect of a bank overdraft facility provided to them and their ultimate parent undertaking, Kier Group plc. At 30 June 2023 borrowings under this facility amounted to £35.0m (2022: £32.0m).

The company had a contingent liability in respect of bonds and guarantees issued of £Nil (2022: £0.2m).

21 Called up share capital

Authorised, issued and fully paid ordinary shares

	No. 000	2023 £ 000	No. 000	2022 £ 000
Authorised, issued and fully paid ordinary shares of £1 each	36,000	36,000	36,000	36,000

22 Lease liabilities

Leases included in liabilities

	2023 £ 000	2022 £ 000
Current	408	831
Non-current	106	496
	514	1,327

McNicholas Construction Services Limited

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

22 Lease liabilities (continued)

Lease liabilities held by the company primarily relate to motor vehicles and property.

The interest expense in respect of lease liabilities is included within Finance costs in the income statement £34,000 (2022: £66,000).

Lease liabilities maturity analysis

Future minimum lease payments as at 30 June 2023 are as follows:

	2023 £ 000	2022 £ 000
Less than one year	418	857
One to two years	71	424
Two to three years	28	69
Three to four years	12	12
Total gross payments	<u>529</u>	<u>1,362</u>
Impact of finance expenses	<u>(15)</u>	<u>(35)</u>
Carrying amount of liability	<u>514</u>	<u>1,327</u>
Total cash outflows related to leases		
	2023 £ 000	2022 £ 000
Total cash outflow	<u>857</u>	<u>1,017</u>

23 Related party transactions

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.

24 Pension and other schemes

Defined benefit pension schemes

McNicholas Construction (Holdings) Limited

The company is a member of the defined benefit group pension scheme operated by McNicholas Construction (Holdings) Limited. Full details of the scheme are given in the notes to the financial statements of McNicholas Construction (Holdings) Limited.

Contributions payable by the company to the pension scheme at the end of the year are £Nil (2022 - £Nil).

The expected contributions by the company to the plan for the next reporting period are £Nil.

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 £141,000 (2022 - £199,000).

McNicholas Construction Services Limited

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

25 Adjusting items

	Operating profit/(loss)		Profit/(loss) before tax	
	2023	2022	2023	2022
	£ 000	£ 000	£ 000	£ 000
Reported loss	(2,844)	(15,114)	(5,711)	(17,534)
Restructuring and related charges	114	620	114	620
Adjusted loss	<u>(2,730)</u>	<u>(14,494)</u>	<u>(5,597)</u>	<u>(16,914)</u>

The Directors believe it is appropriate to inform users regarding various items and disclose those which are deemed one-off, material or non-recurring in size or nature. These are now recorded as adjusting items and disclosed in a separate note rather than on the face of the Income Statement.

Restructuring and related charges £114,000 (2022: £620,000): The Company has incurred costs in respect of roles made redundant as part of cost saving programme and from strategic decisions to reduce headcount.

26 Parent and ultimate parent undertaking

The Company's immediate parent is McNicholas Construction (Holdings) Limited, incorporated in England and Wales.

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

The ultimate controlling party is Kier Group plc.

Relationship between entity and parents

The parent of the largest and 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

Further information on Kier Group plc can be obtained from www.kier.co.uk