Kier Group plc Annual Report and Accounts 2012

KIER

DEFINING TOMORROW'S ENVIRONMENTS

Kier snapshot

Kier Group plc is a leading construction, services and property group specialising in building and civil engineering, support services, commercial property development and structured property financing and private and affordable housing. The Group employs over 10,000 people worldwide and has an annual revenue of £2.1bn.

Our vision

By providing our clients with the highest possible quality of service and through sustainable, profitable growth, our vision is to be the most highly respected company in the industry.

A proactive and committed approach to project and service delivery runs throughout Kier Group. As we continue to grow, there are some fundamental characteristics deeply embedded within the Group that will never change.

Our values

Be enthusiastic, open and honest

Be proactive, committed and safe

Be a team

Be Kier

These simple, realistic values should always represent the very essence of how we do business. The importance of upholding them at every opportunity is paramount if we are to continue to enjoy a culture that earns us the respect and admiration we aspire to in order to realise our vision.

Our Corporate Responsibility

Kier Group's vision is 'to be the most highly respected company in the industry'. To achieve this, we recognise the need to build, maintain, protect and enhance our reputation among all our stakeholders, particularly within the communities where we live and work. This means fully embracing our corporate responsibilities and exercising a proactive and responsible approach Group-wide. We consult with our key shareholders to determine what they are seeking from our CR Report. By taking action, making ourselves accountable, setting targets to improve and doing as much as we can to meet them, we believe we are positioning ourselves to make good progress as a corporately responsible business.

Find more online...

Kier Group plc Annual Report and Accounts 2012
www.kier.co.uk/ar2012

Kier Group plc Corporate Responsibility Report 2012
www.kier.co.uk/ar2012/crr

Kier Group plc
www.kier.co.uk

Stay in touch

In order to maximise our communication with all stakeholders, we are in the process of improving our website and have widely embraced social media channels.

Follow us on Twitter
At year-end we had over 3,350 followers on Twitter
@kiergroup

YouTube
In the year we uploaded 18 videos on YouTube
youtube.com/KierGroupplc

Apps
Kier has started to introduce a variety of apps to improve business delivery
www.kier.co.uk/repairsapp

Group highlights

Revenue
(2011: £2,179m)
£2,069m

Net cash balances
(2011: £165m)
£129m

Profit before tax*
(2011: £68.9m)
£70.0m

Earnings per share*
(2011: 148.4p)
156.8p

Dividend per share
(2011: 64.0p)
66.0p

Order books for Kier Construction and Kier Services
(2011: £4.3bn)
£4.3bn

* Before exceptional items and amortisation of intangible assets relating to contract rights.

Resilient performance

Our results and resilient performance were sustained by:

> Selective bidding, focus on quality work
> Strict risk management and cost control
> Continued tight management of cash
> Pursuit of growth markets and frameworks
> Leveraging our integrated business model
> Staying focused
> Investing in our people

Kier Construction
SeaCity Museum, Southampton
p25

Kier Services
Nick Penny, Street services, Waltham Forest
p30

Kier Property
Fire station, Uckington
p34

Our combined strength

Our divisions

Kier Construction

The Construction division encompasses our UK building, infrastructure and overseas businesses.

Revenue (2011: £1,445m)	£1,383m	Order book (2011: £2.2bn)	£2.2bn
Operating profit (2011: £39.3m)	£35.2m	Operating margin (2011: 2.7%)	2.5%

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Kier Services

The Services division manages and delivers support services to both public and private sector clients.

Revenue (2011: £484m)	£445m	Order book (2011: £2.0bn)	£2.1bn
Operating profit* (2011: £21.7m)	£20.1m	Operating margin* (2011: 4.5%)	4.5%

* Before exceptional items and amortisation of intangible assets relating to contract rights.

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Kier Property

Our property division comprises three main businesses: commercial, industrial, retail and mixed-use property development; structured property financing; and homes, including both private and affordable housing.

Revenue (2011: £250m)	£241m	Development pipeline (2011: £0.8bn)	£1.0bn
Operating profit* (2011: £15.3m)	£22.0m	Land bank value (2011: £159m)	£132m

* Before exceptional items.

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Our management structure

Kier Group is managed through a short, clear and efficient structure that gives a fully integrated and coordinated approach which remains both adaptable and agile to meet rapidly changing market requirements.

The Executive Board is supported by the Executive Management Team (EMT) which incorporates both operational directors (who focus on operational issues that will drive value to our business through a closer process of working together) and directors of core central functions (IT, HR, legal, health & safety, corporate communications) to ensure consistency, collaboration and coordination.

Board of Directors

Paul Sheffield
Steve Bowcott
Ian Lawson
Haydn Mursell

Hugh Raven
(company secretary)

Phil White CBE
Richard Bailey
Chris Geoghegan
Amanda Mellor
Nick Winser

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Executive Board

Paul Sheffield
Steve Bowcott
Ian Lawson
Haydn Mursell

Executive Management Team

Paul Sheffield
Steve Bowcott
Ian Lawson
Haydn Mursell

Hugh Barrs
Richard Bush
Philip Cave
Hugh Raven
Alan Smith
Duncan Stott
Nigel Turner
Claudio Veritiero
Andrea Walton

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Divisional Boards

Kier Construction
Kier Services
Kier Property

Our built environment lifecycle

- Kier Construction
- Kier Services
- Kier Property

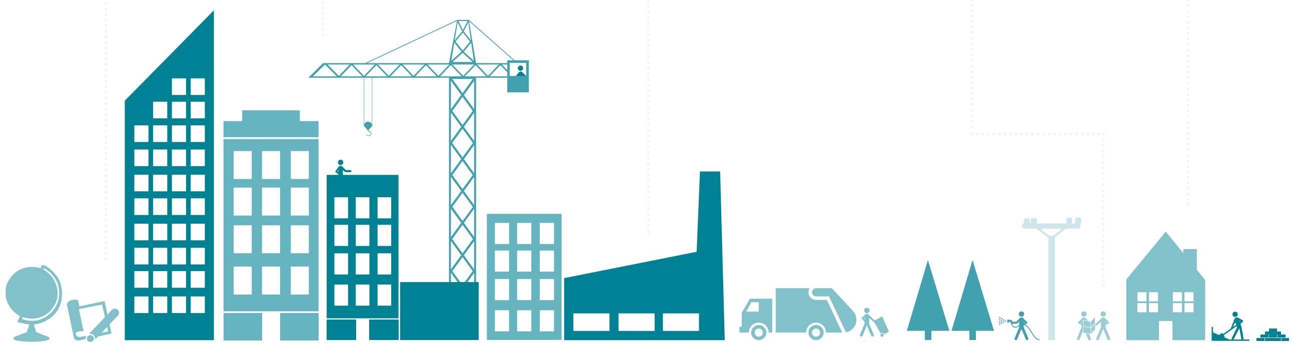
Strategy and planning
> Property policy
> Accommodation strategy
> Space planning
> Working patterns
> Estate modelling

Feasibility studies
> Planning appraisals
> Local property mapping
> Development use
> Community engagement
> Grants and funding

Development
> Investment appraisals
> Development appraisals
> Lifecycle costs and management
> PFI and PPP arrangements
> End user engagement
> Development partnerships
> Local asset partnership
> Lease/leaseback arrangements
> Urban regeneration and rural development
> Social housing and care homes

Design and technical services
> Design
> 3D modelling
> Technical services
> Building information modelling (BIM)

Site remediation
> Site regeneration
> Land reclamation
> Soil mechanics
> Contamination management
> Soil investigations
> Site preparation
> Mining



Refurbishment and upgrading
> Building ‘greening’
> Energy management
> Property refits
> Small works
> Decant management
> Minor repairs

Civil engineering
> UK
> Overseas

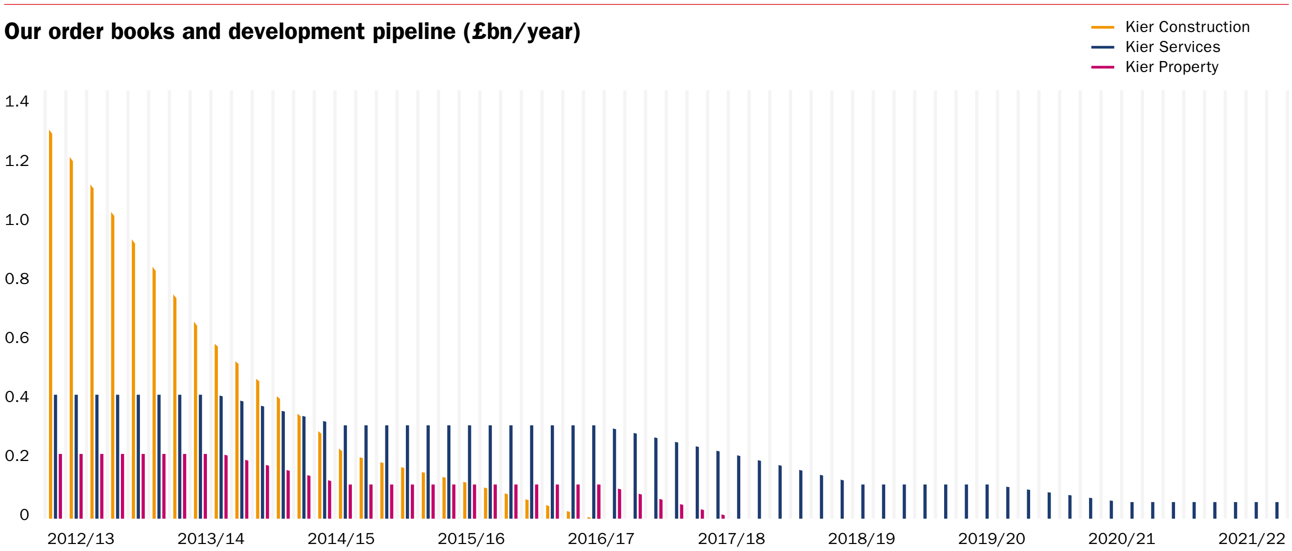
Construction
> Major capital works
> Civil and infrastructure
> Design and build
> Supply chain management
> Traditional contracting
> Turnkey projects

FM and managed services
> Cleaning, waste management and recycling
> Pest control
> M&E maintenance
> Street services
> Reception and help desk
> Catering
> Grounds maintenance
> Post room
> Security

Repairs and maintenance
> Planned maintenance
> Cyclical maintenance
> Reactive maintenance
> Repairs and upgrades
> Building fabric maintenance
> ‘Greening’ of existing assets

Property/asset management
> Asset strategy and consultancy
> Building surveying
> Statutory compliance
> Acquisition and disposal
> Estate, asset data, rural estate and lease management
> Compulsory purchase orders
> Rating and variation
> Energy strategy

Our order books and development pipeline (£bn/year)



Our year at a glance

Q1 July – September 2011

Kier recognised at Green Apple Awards 2011

The Company was presented with a Gold Award for its use of cross-laminated timber at the completed Open Academy in Norwich – currently the largest building within the UK to use this sustainable method. The builder was praised by the judges for the environmental thinking adopted throughout both the design and construction of the project, and

commended for demonstrating a significant commitment to and expertise in cutting edge, eco-friendly methods of construction.

Kier simplifies its structure to three divisions

On 12 September 2011, the divisions of Kier Group were renamed and realigned from four into three in order to present a clearer and more logical structure of its disciplines. They are now known as Kier Construction, Kier Services and Kier Property.

Scape

Scape National Minor Works framework

Kier was named as sole contractor to deliver a range of construction projects throughout the UK on behalf of Scape. The Scape National Minor Works framework runs for four years and is valued between £750m and £1bn. Projects include refurbishment and new build works on every public sector building type including schools, town halls, leisure and community buildings, and police and fire stations. The framework can be accessed by any public body.

Thamesview School

The building of Thamesview School in Gravesend, a joint venture between Kier Construction's London and eastern regions and part of the Kent BSF Project, was completed.

Follow us on Twitter
Kier has donated 8,500 energy saving light bulbs to promote energy efficiency among North Tyneside's residents. **@kiergroup**

What can we do for you?
Staff from across the globe describe the many services offered by Kier thanks to the skills and capabilities of our people
http://youtu.be/RwshpuOX_Zw

Working with Kier
Video about the work carried out by Kier to extend and refurbish Barking Hospital for NHS Barking & Dagenham
http://youtu.be/aJKvdOt2WNU

Q2 October – December 2011

Kier JV won £200m+ Crossrail contract

A three-way joint venture comprising Kier, BAM and Ferrovial was awarded a £200m+ contract on the Crossrail scheme for major works at Farringdon Station. Farringdon Station was key to the delivery of the Crossrail programme, being where the western and eastern running tunnel contracts terminate and where four tunnel boring machines are to be retrieved.

Kier wins £42m Arthouse contract

King's Cross Central Limited Partnership and Kier Group plc announced the agreement of the contract to construct the £42m Arthouse at the 67-acre King's Cross development in London. The scheme comprises 143 high quality one, two, three and four-bed residential units (including 29 Registered Social Landlord units) over eight floors. The building also includes commercial units at street level and 37 basement parking spaces.

Pure Recycling facility
Kier Group's very own materials recycling facility (MRF) opened at Ettington in Warwickshire.
http://youtu.be/f_OkZfzQSq8

Kier appoints Amanda Mellor to the Group Board

In December, the Board of directors announced the appointment of Amanda Mellor as a non-executive director of the Company. Amanda is a member of the Company's Risk Management and Audit, Remuneration and Nomination Committees and is considered by the Board of directors of the Company to be independent.

Kier sells PFI investments

Kier completed the sale of its 50% interests in two PFI projects. Kier sold its investments in the West Berkshire Hospital project for a consideration of £5.0m, and in December 2011 Kier transferred its investment in the Hinchingbrooke Hospital project to the Kier Group Pension Scheme for a consideration of £3.1m. The aggregate consideration for the disposals gives rise to a profit of £6.7m.

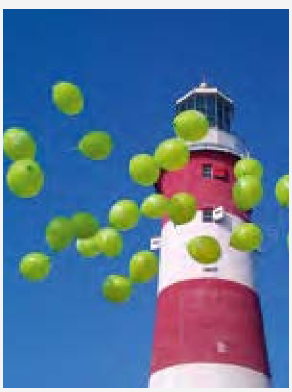
Q3 January – March 2012

CR Index 2012

Kier achieved Gold status in Business in the Community's (BITC) 2012 Corporate Responsibility Index (CRI), the UK's leading voluntary benchmark of corporate responsibility.

Kier JV in £100m+ contract at Hinkley Point C Nuclear power station

A Kier joint venture has now signed contracts with EDF Energy to carry out £100m+ of site preparation works for the Hinkley Point C nuclear power station in Somerset. The work includes excavation, earthworks, terracing, the installation of construction site infrastructure and formation of roads and networks to allow main construction to start.



The Kier Foundation launched

In February Kier sites and offices were asked by The Kier Foundation to get involved in its 'Go Green' day to mark the launch of the Foundation and Kier Group's two-year corporate partnership with Barnardo's. During the day, a series of balloon releases took place at various Kier sites and offices using biodegradable Barnardo's balloons.

Smartphone application

Kier launched an exclusive smartphone application – the Kier Repairs app. The free download app enables tenants and companies eligible for Kier's repairs, maintenance and facilities management services on their home or business to report repairs directly using their smartphone.
www.kier.co.uk/repairsapp

Project Pride – Heathcote School
Sixth form pupils at a school in Waltham Forest have spent two days working with more than 40 directors of Kier Services
http://youtu.be/vjPzKj-iePA

Follow us on Twitter
Wow! Just spoken to Nicky **@kiergroup** who are donating £800 to us, via their safety award scheme! **@Youth_86**

Q4 April – June 2012

Barnardo's support

Kier Group chief executive Paul Sheffield presenting a cheque for £25,000 to Barnardo's senior relationship manager Kate Mitchell and Indigo's children's service manager Jo Chaney.

Follow us on Twitter
Our thanks to @CDProject for placing Kier in the Carbon Disclosure Leadership Index for the second consecutive year.
@kiergroup

Contractor of the year 2012

Kier picked up the award for Contractor of the Year at the Construction News Awards on 10 July. The judges were particularly impressed by Kier's firm commitment to all types of youth training development and its communication and creation of performance culture. Executive director Steve Bowcott (centre) received the award from Claire Balding.

Acquisition of Stewart Milne construction operations

Kier acquired certain construction operations of Aberdeen-based Stewart Milne. The business will operate from Aberdeen as part of Kier Group's regional network of UK construction businesses, initially using the name Kier Milne.

Kier consortium to deliver 11 new fire stations for Staffordshire

Blue3, a consortium comprising Kier and Calderpeel Carden Croft, has been named preferred bidder to design, rebuild and maintain 11 fire stations, for a combined £50m, throughout Staffordshire on behalf of the Staffordshire Fire and Rescue Service. Kier will commence the construction in early 2013 and, once complete, will maintain the community fire stations over a 25-year concession period.

Kier announced preferred bidder on £225m+ services contracts

Kier Services has been announced preferred bidder on three contracts in the services sector with a total value of circa £225m. It is one of four preferred bidders selected to provide repairs and maintenance services for housing group Circle, in what is estimated to be one of the biggest contracts in the sector. With a value to Kier of approximately £200m, the company has been selected to carry out planned and cyclical works in the eastern, central and West Midlands regions.

Carbon neutral construction
We look at how cross-laminated timber technology provides Kier with a huge opportunity to increase its carbon efficiency
http://youtu.be/Q_hcFOtDx1E

Chairman's statement

Revenue
(2011: £2,179m)

£2,069m

Net cash balances
(2011: £165m)

£129m*

* After investment of approximately £50m during the year.

"We will continue to pursue growth areas across each of our three operating divisions."

I am pleased to report a solid set of results for Kier Group plc for the year ended 30 June 2012. Underlying profit before tax, before the amortisation of intangible assets relating to contract rights and exceptional items, improved 2% to £70.0m (2011: £68.9m) and earnings per share on the same basis increased 6% to 156.8p (2011: 148.4p), enhanced by a 6% reduction in the effective tax rate.

Revenue at £2,069m, was 5% lower than last year (2011: £2,179m). However, the operating margins were resilient in both the Construction and Services divisions, at 2.5% (2011: 2.7%) and 4.5% (2011: 4.5%) respectively. There was also a more substantial contribution from the Property division, including the housing businesses, with a 44% increase in its operating profit to £22.0m (2011: £15.3m).

The Group's cash performance remained stable, despite a more challenging working capital environment, with average Group month-end net cash of £95m (2011: £129m), after investment during the year of approximately £50m. This produced a Group net cash position at 30 June 2012 of £129m (2011: £165m).

Taking into account the performance of the Group, its cash position, and continuing the Group's progressive dividend policy, the Board proposes to increase the total dividend for the year by 3% to 66p (2011: 64p), which is more than twice covered by adjusted earnings per share and reflects the Board's confidence in the business. The final dividend of 44.5p will be paid on 28 November 2012 to shareholders on the register at close of business on 21 September 2012. There will be a scrip dividend alternative.

Board changes

At the annual general meeting in November 2011, we announced the appointment of Amanda Mellor as a non-executive director of the Company with effect from 1 December 2011. Amanda is currently Group Secretary and Head of Corporate Governance of Marks & Spencer Group plc, having previously been Head of Investor Relations at Marks & Spencer and Director of Corporate Relations at Arcadia Group plc. Throughout the year, Amanda has made a significant contribution to the Board and to its Risk Management and Audit, Remuneration and Nomination Committees.

Outlook

With our order books in Construction and Services at a combined level of £4.3bn we have entered the new financial year in a good position with 95% of the Construction division's targeted revenue and 91% of the Services division's targeted revenue for 2013 secure and probable. The Property division with its pipeline now standing at over £1bn will continue to be a key contributor to the Group results and will create opportunities across all the divisions, thus maintaining our well-balanced business model.

We will continue to pursue growth areas across each of our three operating divisions and with our committed and professional staff and the diversity of our business model; we remain well positioned in today's changing environment.

Phil White CBE
Chairman

Phil White CBE
Chairman

The role of our Committees

Board of Directors

The Board is responsible to shareholders for the success of the Company. The Board develops the Group's strategy, monitors and reviews its business performance and controls risk. The Board has put in place reporting processes and other controls which are designed to ensure that it is provided with relevant information on a timely basis, which set authorisation limits and which reserve certain significant matters for the Board or its committees.

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Risk Management and Audit Committee

Chair Richard Bailey

The Risk Management and Audit Committee comprises the non-executive directors. Richard Bailey, a chartered accountant with recent and relevant financial experience, is the chairman of the committee. The committee is responsible for overseeing the Group's internal audit function. The director responsible for internal audit reports to the chairman of the committee. The committee is also responsible for monitoring and reviewing the performance, independence and objectivity of KPMG, the external auditors.

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Remuneration Committee

Chair Chris Geoghegan

The Remuneration Committee comprises the non-executive directors. Chris Geoghegan is the chairman of the committee. The committee makes recommendations to the Board on the Company's framework of executive remuneration and determines, on its behalf, specific remuneration packages for each of the executive directors. In doing so, it takes the advice of independent external consultants.

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Nomination Committee

Chair Phil White CBE

The Nomination Committee comprises the Group's non-executive directors. Phil White is the chairman of the committee. The committee is responsible for monitoring the composition and balance of the Board, making recommendations to the Board on new Board appointments and succession planning.

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Chief Executive's review

Dividend per share
(2011: 64.0p)

66.0p

Earnings per share*
(2011: 148.4p)

156.8p

Combined Construction and Services order book
(2011: £4.3bn)

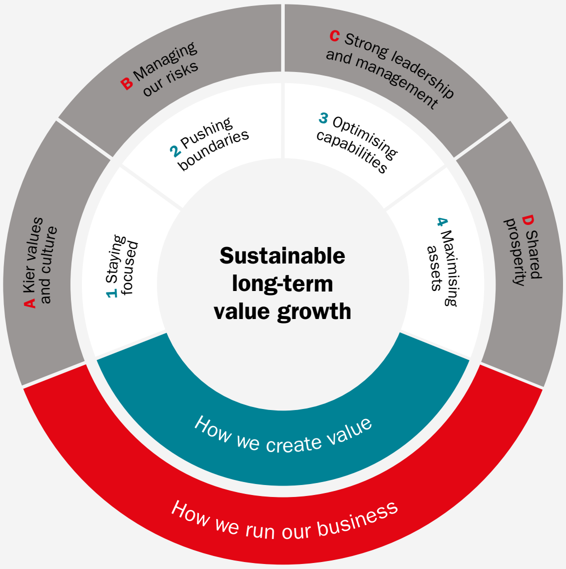
£4.3bn

* Before exceptional items and amortisation of intangible assets relating to contract rights.

Kier has had a good year despite the challenging economic environment and has delivered a solid set of results for the year to 30 June 2012, with underlying profit before tax and earnings per share ahead of last year. This performance has been supported by a robust cash performance, with a year-end net cash balance of £129m (2011: £165m) after significant investment across the Group.

The year to 30 June 2012 has been busy for all our businesses in bidding for work in an increasingly competitive environment. We have responded well to the challenges this difficult market has presented and our success is due to the hard work of all our people, of whom I am very proud.

In response to the trading conditions encountered during the year, we have further improved our operational efficiencies and reallocated resources around the Group to address the projects we have secured, looking to be as cost-effective as possible. We have maintained our focus on providing intelligent solutions to our customers which means our well-balanced business model continues to allow Kier to access a wide range of opportunities across all our divisions. We are encouraged by the Government's commitment to improve the UK's infrastructure and are well-placed to benefit from this investment.



How we work

A Kier values and culture ifc

1 Resilient in changing times: staying focused
We have held a firm focus on the pursuit of projects – whether in construction, services or developments – that reward those who are able to use their skills and technical knowledge to re-engineer processes and schemes to create value for our customers. p16

B Managing our risks p51

2 Focus on growth markets: pushing boundaries
We are confident that our concentration on each growth market, either through acquisition or organic growth, can be fully resourced, managed and has affinity with our overall integrated business model. p18

C Strong leadership & management p2

3 Leveraging our integrated model: optimising capabilities
We have a very well balanced and comprehensive business model which enables us to provide a range of services to customers either as one-off solutions or as a combination of services on a wider value-added platform. p20

D Shared prosperity p39

4 Investing in our people: maximising assets
Kier's ongoing success has been built upon the remarkable skills, efforts and loyalty of our people. We will continue to review and improve all of our employee training and development. p22

Financial performance

	Total revenue £m	Operating profit £m*
Construction	1,383	35.2
Services	445	20.1
Property	241	22.0
Corporate	–	(2.9)
	2,069	**74.4**

* Before exceptional items and amortisation of intangible assets relating to contract rights.

Revenue for the year at £2,069m was slightly lower than last year (2011: £2,179m), and the strength of the margin is testament to the quality of the work we completed during the year. The Group's operating profit, before the amortisation of intangible assets relating to contract rights, was 5% ahead of last year at £74.4m (2011: £71.1m) and comprised operating margins of 2.5% in Construction, 4.5% in Services and a valuable contribution from Property as we continue with our investment strategy.

Exceptional items before tax amounted to a charge of £3.6m for the year (2011: net credit of £7.0m), as follows:

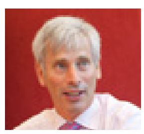
> a charge of £3.2m for external costs and the loss against net book values, relating to the disposal of the majority of our Plant business (temporary accommodation, mechanical and small tools) in July and August 2012; and

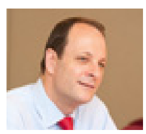
> a charge of £0.4m for external costs related to the investment in Biogen (UK) Limited, which also completed in August 2012.

Profit before tax for the year, before the amortisation of intangible assets relating to contract rights and exceptional items, was 2% ahead of last year's at £70.0m (2011: £68.9m). On the same basis, adjusted earnings per share were 6% ahead at 156.8p (2011: 148.4p).

Executive Management Team

Executive Board


Paul Sheffield
Chief Executive


Haydn Mursell
Finance Director


Steve Bowcott
Executive Director


Ian Lawson
Executive Director

Management team


Richard Bush
Deputy Managing Director Construction


Claudio Veritiero
Managing Director Services


Philip Cave
Managing Director Infrastructure & Overseas


Nigel Turner
Managing Director Property


Alan Smith
Director Corporate Communications


Hugh Raven
General Counsel and Group Company Secretary


Duncan Stott
Chief Information Officer


Andrea Walton
Human Resources Director


Hugh Barrs
Director Safety, Health & Environment

Chief Executive's review

The management of working capital remains very important to the Group in an increasingly challenging payment environment.

The management of working capital remains very important to the Group in an increasingly challenging payment environment. It is therefore pleasing that in parallel with this trading result, the Group achieved a healthy average month-end net cash balance of £95m (2011: £129m) after investment of approximately £50m during the year across the Group.

Group strategy

Whilst our strategy continues to focus on growth areas in each of our divisions, leveraging the many opportunities that arise through our well-balanced, integrated model, we regularly review our activities and markets to adjust and refocus where necessary to remain agile in quickly changing trading environments. This clearly requires us to have a robust and diverse set of capabilities to ensure we are able to place quality resources in these new areas – including human resources, financial, technical, IT and management systems.

There have been four underlying strategies that we have adopted over the last few years, each of which has contributed to our operating performance this year. These are:

> staying focused on quality solutions and value creation;

> pushing our boundaries, by focusing on growing markets;

> optimising our capabilities through leveraging our integrated, well-balanced business model; and

> maximising our assets, by investing in our people.

Staying focused

The ongoing uncertainties in the Eurozone are inevitably having a significant impact on our operating markets. However, we have maintained a focus, across the Group, on pursuing good quality opportunities where experienced customers seek intelligent

Sainsbury Laboratory
Cambridge University

11,000sq m plant science research centre set in the University of Cambridge's Botanic Garden. The laboratory has won many awards including:

Construction Manager of the Year
New Build over £60m
Concrete Society Awards
Concrete Performance Award
Civic Trust Awards
Eastern Region
World Architecture Festival
Best Learning Building Award
BD Architect of the Year
Education Award
Lighting Design Awards
Daylight category
Considerate Constructors Award
Bronze
Local Authority Building Control Awards
Best Education Building
RIBA Awards
Regional Building of the Year

> Each of our business units has been looking to extend its service offering to adjacent markets, leveraging the existing skills we have, to work in new sectors or geographies.

solutions rather than the lowest price. Although we are unable to avoid the increasingly competitive markets entirely, this approach has partly insulated us and I am pleased that we have been able to maintain our secured pipeline of work at the same level as last year across our Construction and Services divisions and that the order book in our mixed-tenure housing business has grown significantly. This focus on quality has required us to improve our operational efficiencies and reallocate resources around the Group where there is most opportunity; as a result of this we have seen an increasing shift towards London and the south-east, our infrastructure business and international markets.

Pushing boundaries

Each of our business units has been looking to extend its service offering to adjacent markets, leveraging the existing skills we have, to work in new sectors or geographies. In our Services division, despite seeing a decline in revenues in our existing public sector long-term housing maintenance contracts, where we have a very strong presence, we have been successful in securing a place on the largest private sector housing maintenance contract let this year with Circle. We have also been able to expand our operational activity in the private sector facilities management (FM) market with some significant contract wins such as the RAC and L&G, and we have secured new long-term contracts for our Environmental business.

Our Construction division has seen a significant change in the balance of its work with a greater proportion of more specialist major civil engineering and infrastructure opportunities while still maintaining its strong presence in the more traditional general building markets. We are increasing our activities outside the UK, building upon our reputation and experience in the Caribbean, Hong Kong and the Middle East. All these growing markets have challenging entry levels and Kier is one of only a few companies with the resources – human, technical and financial – to gain access to these opportunities.

Creating Britain's Future
Dame Tessa Jowell MP (above) and Britain's leading construction contractors launched the Creating Britain's Future campaign in July. The aim of the campaign is to showcase the capability of Britain's contractors and highlight the importance of the industry to economic growth and employment. Chief executive Paul Sheffield is chairing the initiative which is being coordinated by the UKCG (UK Contractors Group).

Chief Executive's review

Our Property division has been innovative in its approach to its investment activities, developing a series of bespoke partnerships to maximise the assets of clients.

Meanwhile, our Property division has been innovative in its approach to its investment activities, developing a series of bespoke partnerships to maximise the assets of clients across a range of sectors, from railway stations to corporate headquarters and from fire stations to major regeneration schemes. Finally, the refocusing of our house-building activities towards the affordable homes sector, and expanded relationships with housing associations, has proved successful and we now have a secured pipeline of work, totalling £250m, of mixed-tenure projects comprising some 1,900 new homes.

Examples of how this strategy is delivered are described in further detail in the business review of each division. To cite just one example, our focus on increasing our activity in Scotland during the year has led to us being awarded a position on the new infrastructure hub framework in the south-west, worth up to £500m over the next ten years. This comes in addition to the acquisition of certain of the construction operations of Aberdeen-based Stewart Milne, which extends our presence beyond the central belt.

In July and August 2012, following a strategic review of our Plant business, we sold some of our non-specialist plant assets for a combined maximum aggregate consideration of £15.7m. We have retained our technical operated plant activities, including our specialist crane operations, which will remain within the Group for operational reasons. The sale will enable us to invest that capital in a value creating part of the Group in the coming year.

Also in August 2012, we completed the £24.4m investment, over five years, in Biogen (UK) Limited, establishing a 50/50 joint venture with the owner of the Bedfordia Group plc. Biogen designs, builds and operates large-scale anaerobic digestion (AD) plants to process food waste and produce renewable energy. It currently owns and operates two large commercial AD plants in the UK (both of which are included in the joint venture) and we plan to build a number of further plants in strategic locations

Apprentice of the Year
Kier apprentice Christopher Cheek was named UKCG Apprentice of the Year. Recruited by Kier through the Future Jobs Fund for the unemployed in 2010, he began work on a social housing project in Birmingham, where his positive attitude and quickness to learn highly impressed his colleagues. Christopher has achieved his advanced apprenticeship in carpentry, and has now begun the Kier Foundation Degree in Construction Management. Kier was recognised by the UK Contractors Group as UKCG Employer of the Year for its dedication to the personal development of its 478 apprentices.

The Kier Foundation
Pictured at the signing ceremony to mark a two-year partnership between The Kier Foundation and Barnardo's, are Kier chief executive Paul Sheffield and Barnardo's chief executive Anne-Marie Carrie.

More information online
www.kier.co.uk/foundation

> We have a very well balanced and diverse business model, which differentiates us from our competitors by offering a fully comprehensive service to our customers.

to serve the requirements of local authorities, food retailers, food manufacturers and commercial waste providers to the food and retail industries. The joint venture will enhance our Environmental business by providing intelligent solutions for the treatment of food waste and complements our Pure Recycling business which we acquired in 2010. There is significant demand for new AD plants across the UK, with seven million tonnes of food waste being produced per annum and current AD capacity of only 2.5 million tonnes, resulting in a need for a further 100 plants. Following an initial two-year investment phase, we expect the return on capital to exceed 15% and for the business to be operating nine plants by 2017.

Optimising capabilities

We have a very well balanced and diverse business model, which differentiates us from our competitors by offering a fully comprehensive service to our customers. This enables us to provide either one-off solutions or a wider value-added platform combining two or more of our services, right through to the total one-stop approach that enables us to plan, design, finance, build, manage and maintain customers' assets over the long term. These capabilities have enabled us to become the preferred development partner for Siemens, developing their major mixed-use scheme in Manchester, secured in April, and more recently we have been chosen as the preferred development partner for the Health Campus Partnership (formed by Watford Borough Council, West Hertfordshire Health Trust and Watford Football Club) for the £240m Watford Health Campus project. We are also working as a partner with Network Rail in the growing Solum Regeneration station redevelopment business in which we are able to plan, design, finance, build and sell-on some of their railway station assets.

Maximising assets

Our success has been built upon the skills, efforts and loyalty of our people, from our street services operatives across the country to the most highly qualified engineers working on infrastructure

Havelock Academy
Grimsby

Built in the shape of a star, the multi-million pound Havelock Academy in Grimsby has been completed by Kier Construction (Major Projects). As well as being part of the school's logo, the building's unusual shape is a reflection of the aspirational learning environment that staff, pupils and the local community have all been involved in creating. A banquet hall will be used for pupils and staff to formally dine together and the new lecture theatre with full stage will be open for community use. Four balcony areas have a view of the grounds outside which have also been carefully considered and include expansive playing fields, which have been landscaped, soft and hard play areas and a purpose-built space to play fives, also known as handball. Outside features also include a maze, an orchard, an amphitheatre, and various spaces for students to gather and interact.

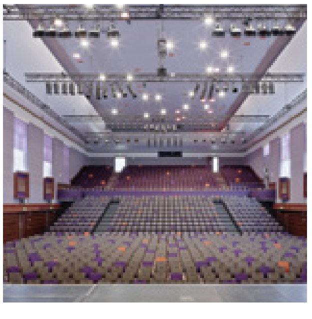
"Our focus continues to be seeking to eliminate workplace injuries, to protect our environment and to increase our people's awareness of occupational health and well-being."

projects beneath the streets of London and Hong Kong. We are committed to a comprehensive development programme for a wide range of our staff to ensure that they continue to develop as managers and leaders within our business as it responds to the constantly changing economic environment. I am delighted that our ground-breaking 'Team Leader Apprenticeship' was nominated the Apprentice Programme of the Year by the UK Contractors Group and we continue to focus on our unique Foundation Degree programme with Sheffield Hallam University to help us develop new graduates with the skills we need in today's market. We have also launched our Leadership Charter with senior management attending a bespoke course at RMA Sandhurst to commit to the values we place on true leadership. All of this ensures that our people, at all levels, are encouraged to maximise their potential and contribute to our future success as a business.

Health and safety

Our focus continues to be seeking to eliminate workplace injuries, to protect our environment and to increase our people's awareness of occupational health and well-being. Whilst we have delivered a reduction in our Accident Incidence Rate (AIR) during the year, we continue to strive towards our goal of Zero Harm. Our Positive Safety Leadership (PSL) programme is strong and continues to have an impact throughout the Group. There is clear evidence that as PSL interventions increase, our accident rates decrease.

Our Occupational Health Programme seeks to address a range of health issues. During the year over 600 Kier and subcontract personnel took part in a number of health-related discussions on our sites and over 2,000 employees received display screen equipment training and assessments.



Watford Colosseum
Watford

The Watford Colosseum is a £5m extension and fit-out of a Grade II listed music venue including the refurbishment of the 1,800-seat auditorium. Mayor of Watford, Dorothy Thornhill, commented 'I am so pleased with how it looks and feels! This is another fantastic project, completed on time and on budget, that is about investing in the future of the town'.

Looking to the future, we have robust strategic plans in place to deliver best-in-class safety, health and environment (SHE) performance and support to our employees and clients.

Our current AIR stands at 301 per 100,000 (2011: 389) which is significantly lower than the current Health and Safety Executive (HSE) benchmark rate of 536. Whilst it is recognised that we rank well within the top quartile of SHE performers and continue to improve our performance year on year, we have also challenged ourselves to do even better. The visible leadership of our people, management teams, supply chain, clients and partners is critical if we are to retain our position as industry leaders in SHE performance.

Another independent assessment of the quality of our approach to running our projects, which includes a significant safety element, is the Considerate Constructors Scheme (CCS). Under this scheme, we received 36 National Site Awards during the year, reflecting a consistently high performance across the country.

People

Every day 10,000 people come to work for Kier in the UK and overseas, working towards creating and maintaining a sustainable built environment in its many forms and delivering essential and efficient local services. It is through their effort and commitment that we remain a strong business and can report such a solid set of results despite the current economic environment.

Recent business and economic challenges have meant that we have needed to ask more of our people, and I am incredibly proud of the results that they have achieved this year. We continue to deliver safely, to programme, to budget and to great quality, and I would like to express my thanks, and those of the Kier Group Board, to all of our employees for their continued professionalism, effort and commitment.

Prospects

The current trading environment will continue to be challenging. Ongoing public sector spending cuts are affecting levels of construction and services activity, and private sector confidence, although stronger in the south-east, remains fragile.

Our well-balanced business model, which offers a range of services, including investment, planning and design, construction, maintenance, soft and hard facilities management, waste, energy and environmental services and regeneration, provides stability. It also allows us to respond rapidly to changing markets and position ourselves favourably when new opportunities arise.

We will continue to seek out areas of growth across the UK and our chosen overseas markets and, by utilising our strong balance sheet, we are confident that our robust performance will continue and that we will further benefit when the economy begins to improve.

Paul Sheffield
Chief Executive

Essa Academy
Bolton

Kier Construction completed work on the new £14.5m Essa Academy in Bolton. The 8,303sq m academy, procured through the Academies Framework, provides a unique 900-place learning environment for 11 to 16-year-olds and is now fully occupied. Central to the sophisticated academy is the fully glazed International Business and Enterprise Centre (IBEC) – an interactive facility and official Apple Learning Centre that ‘floats’ above the reception and the main entrance so that the activities and events inside can be seen on the approach to the building.

Staying focused

Resilient in changing times

What is being accomplished?

Against the backdrop of the Eurozone uncertainties, severe government spending cuts and increasingly competitive market pressures, Kier has maintained a robust financial business performance. This, together with our order book being sustained at the same level for the last two years, represents a great accomplishment by the Company and all its employees. In a difficult trading environment, it is very easy to become distracted by one-off opportunities and a desire to maintain revenue at all costs. At Kier we have held a firm focus on the pursuit of projects – whether in Construction, Services or Property – that reward those who are able to use their skills and technical knowledge to re-engineer processes and schemes to create value for our customers. As a result of the diverse geography that we cover across the UK and overseas, together with the wide range of capability that we have developed over the years, we are able to respond to particular market sectors that show the most opportunity in this regard. By continuing to demonstrate our value for money solutions to our many repeat customers we have been able to maintain a high proportion of our revenue streams from our long term frameworks.

Why is it necessary?

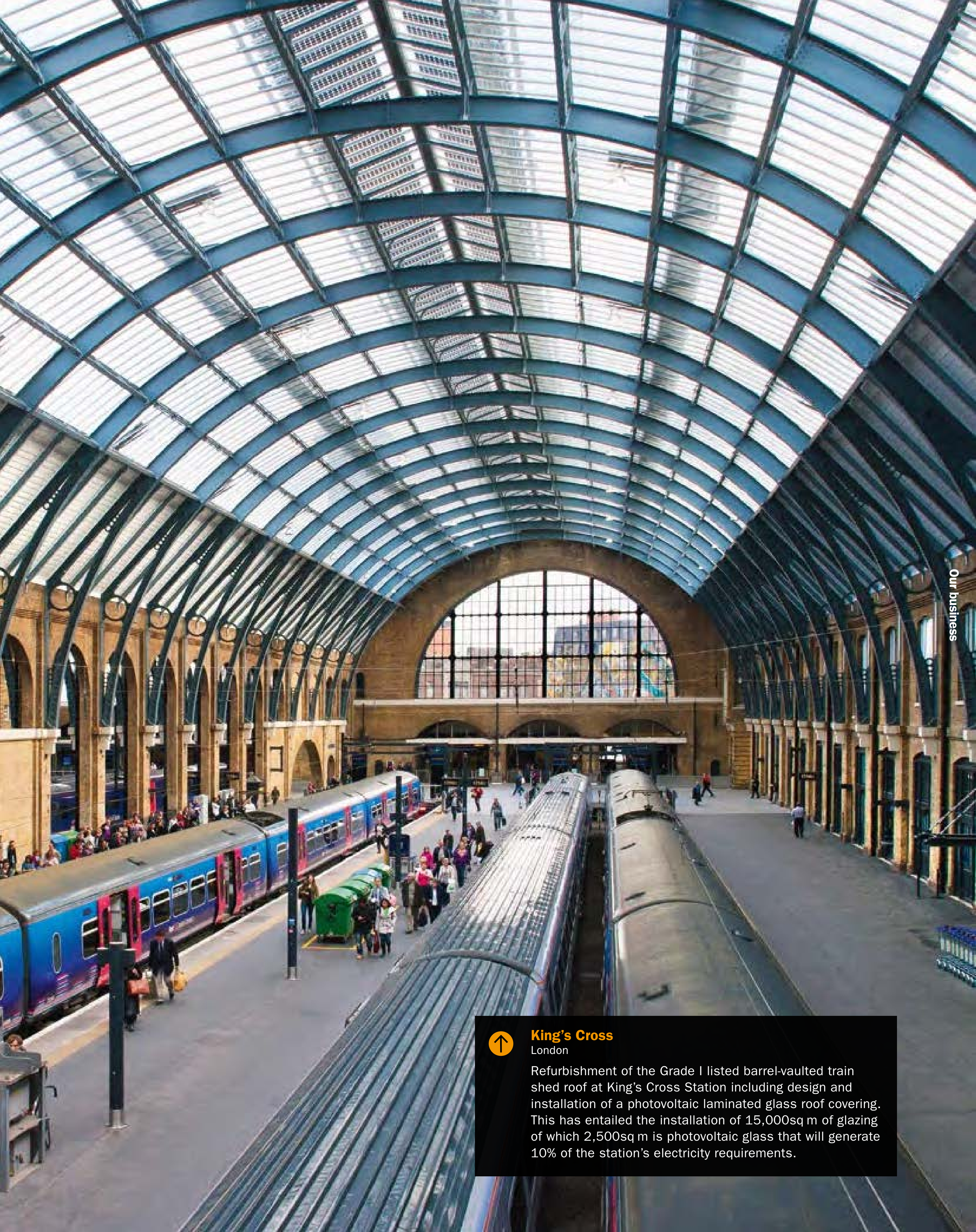
Public sector work represented a high proportion of our revenues a few years ago and the predicted cut backs in government spending could have severely dented both our order books and our revenues. However, our ability to move into other markets in the private sector and overseas, has helped maintain a consistency in our performance. In Construction, we have seen an 18% reduction in the overall activity levels across the industry (higher in the public sector and slightly lower in the private sector) and a significant price deflation in parallel with that. In Services, there has been a very rapid cut back in capital works programmes although the medium term outlook remains one of growth once the anticipated outsourcing process starts to take shape. Without a clear focus on the profitable areas of our markets we would have seen our revenues and profitability decline in line with the overall marketplace. This has clearly not been the case and we continue to see our order books at healthy levels giving us good visibility of future income.

How will it work?

We will keep focused on the markets and sectors which we perceive to have the greatest growth potential. This will inevitably mean investing and redeploying our resources to enable us to deliver new or changing opportunities. The recent investment in Biogen and the sale of much of our Plant business reflects this strategy. We recognise, however, that our workforce also has to remain agile in their skills and capabilities as we adjust our focus. Strong, strategic leadership is even more important in today's market and we are continuing to invest significantly in the development of our people with this in mind.

What's next?

We are positioning our business in so many ways to ensure we are in a strong position when the economy begins to recover. Not only does this include training and developing our leaders, investing in new business and resources but also ensuring that all of our business processes are robust enough to carry us into the next phase of our growth. Information technology is a vital part of our ability to communicate and deliver our work so this has become a prominent focus for our investment in the short and medium term. We are also looking at raising our brand in the marketplace and raising awareness of our integrated business offerings. We also recognise that being very proactive in our corporate responsibilities will not only help us win work but will also make us a better employer, a better influence on the environment and a better partner in the communities in which we work.



King's Cross
London

Refurbishment of the Grade I listed barrel-vaulted train shed roof at King's Cross Station including design and installation of a photovoltaic laminated glass roof covering. This has entailed the installation of 15,000sq m of glazing of which 2,500sq m is photovoltaic glass that will generate 10% of the station's electricity requirements.

Pushing boundaries

Focus on growth markets

What is being accomplished?

The profile of our revenue and order book has rapidly switched from declining public sector work into the very diverse private sector. Our Services offering, while maintaining its bedrock of local authority repair and maintenance activities, has been able to secure work with private sector Registered Social Landlords (RSLs) and has considerably expanded its Environmental business which includes waste collection, recycling and waste to energy activities. Our Construction division has focused on expanding our civil engineering and overseas businesses – pushing the boundaries that we have been working within over recent years – whilst reducing our exposure to some of the more commoditised and competitive building projects, particularly those where the sole tender selection criterion is lowest price. We have been able to increase our activities outside the UK, building upon our reputation and experience in the Caribbean, Hong Kong and the Middle East. All of these growing markets have challenging entry levels and Kier is one of only a few having the resources – human, technical and financial – to gain access to these opportunities. Meanwhile, our Property division has been innovative in its approach to its investment activities, developing a series of bespoke partnerships to maximise the assets of clients across a range of sectors, from railway stations to corporate headquarters and from fire stations to major regeneration schemes. Finally, the focus of our house-building activities into the affordable homes sector, and growing relationships with housing associations, is proving a more secure and predictable business.

Why is it necessary?

Since the turn of the century many of our traditional markets in each of our business streams have enjoyed consistent growth following high levels of government spending and a confident private sector keen to invest in social infrastructure schemes. The cut backs in central spending on education, hospitals, custodial and other mainstream capital projects, combined with local authority spending cuts, have encouraged us to push the boundaries and seek new or growing markets. Within a contracting market there will inevitably be increasing competition and corresponding pressures on margins so it has been essential for us to secure and maintain as much of our work as possible though frameworks and negotiated work. Similarly, market forces have made us rethink and focus our housing activities on a more stable and predictable sector with a strong social need.

How will it work?

We need to be incredibly vigilant in looking for new business opportunities but equally we have to be risk-aware. It would be easy to dive into new markets without fully understanding all aspects of that market, the margins attainable, the realistic long term prospects, the competition or the technical and resource requirements to ensure success. We are confident that our concentration on each growth market, either through acquisition or organic growth, can be fully resourced, managed and has affinity with our overall integrated business model. It is essential that our focus on growth markets does not mean we take our eyes off the ball when it comes to maintaining and nurturing all of our existing businesses. This means that our customer focus, our attention to detail, our management of the supply chain and our continued emphasis on intelligent and innovative delivery to maximise value to all of our customers is maintained.

What's next?

The last six months of our financial year saw us make two small company acquisitions and one disposal. Acquiring Stewart Milne Construction will help strengthen our position in Scotland and will open up a significant market for us – pushing our geographical boundaries. Biogen, our new 50% JV company with Bedfordia Group will enhance what we already do in our Environmental business and moves us into a new business activity in power generation from the waste stream we already collect – pushing our technical boundaries. Our Infrastructure and Overseas business has grown considerably over the last three years and is poised to take advantage of the huge markets in which we operate in Hong Kong, the Middle East and Caribbean, where margins should be considerably better than the UK.

We have a strong balance sheet and will continue to seek to invest where returns can be predictable, secure and enriching. Releasing cash through the disposal of our non-core Plant hire business to be redeployed in better quality investments further underpins that intent.

MTRC contract 824 Ngau Tam Mei to Tai Kong Po tunnels
Express Rail Link, Hong Kong

The contract is part of the 16km-long new underground rail link between Hong Kong and Guangzhou in China.

Optimising capabilities

Leveraging our integrated model

What is being accomplished?

We have a very well balanced business model in which the three core divisions support each other and create synergies. Our Construction and Services businesses generate cash which is used by our Property teams to deliver significantly enhanced profits. The projects put together by our Property business provide construction and services work for our other divisions. For some customers, this provides a compelling solution. Few of our competitors can offer such a comprehensive ‘cradle to grave’ service for the wider built environment and society at large. This enables us to provide either one-off solutions or a wider value-added platform combining two or more of our services, right through to the total one-stop approach that enables us to plan, design, finance, build, manage and maintain customers’ assets over the long term. It is this capability that has secured us preferred development partner for Siemens in developing its major mixed-use scheme in Manchester and for the £240m Watford Health Campus. It is how we are working as a partner with Network Rail in the growing Solum Regeneration station redevelopment business and it is an attribute we can bring to PFI schemes where the whole project lifecycle can be delivered by our business – and has helped us to reach preferred bidder on two new PFI schemes this year with a combined value of more than £100m.

Why is it necessary?

All business is cyclical. The diversity of our three divisions and all of their individual business streams means that we have the ability to align and balance resources to best match changing markets or geographical performances. When there is a downturn in one sector we have the capability to switch resources to a more buoyant sector and in this way aim to keep a balanced revenue stream across the Company. Most importantly, the integrated model gives our customers the broadest range of services and capabilities to meet their requirements. It means we can bring in skills, expertise and experience from one part of the business to help another part to give the greatest range of knowledge and intelligence to find the best solutions. ‘Integrated’ helps us share customer experiences where innovative solutions found for our clients by one business stream can be brought to help another client facing similar challenges. Although we do have a varied range of businesses we bring an integrated approach to many issues from health and safety to financial controls, from corporate responsibility to business ethics – all to the highest standards. The profile of our Business Risks, as identified in our annual report every year (see pages 51 to 53), reflects this need to address generic issues that will bring common standards to all of our activities.

How will it work?

We manage and promote our integrated business model at every level. The Board is supported by two senior management teams which are representative of the main business streams and meet on a regular basis. This includes the OMT (Operational Management Team) which focuses on operational issues that will drive value to our business through better understanding and a closer process of working together. It also has a focus on increasing value, reducing costs, improving communication and how we develop key accounts and new markets. The second is the Executive Management Team (EMT – see page 9) which incorporates OMT members as well as the directors of the core central services – IT, HR, legal, corporate communications, health & safety – all ensuring consistency, coordination and collaboration. At the highest level of each division we ensure cross-divisional dialogue on an operational basis. Across all of our various internal corporate communications tools, ranging from our annual Directors’ Forum, through our employee journal, newswires, CEO videos and intranet, we encourage cross-divisional dialogue, the sharing of best practice, knowledge management and examples of projects brought to the table through integrated approaches. It has now become a mindset in Kier that we are one company and we have an integrated range of business streams that we can call upon to help deliver the best for customers.

What’s next?

The quest for total integration between people within our business is an on-going process. As we deliver more and more integrated projects we find further enhancements and synergies that can be used on future schemes. At the same time our people become more proficient and confident in exploring and delivering those improvements and our business is strengthened as a consequence. An example of this is the opportunity we have created for ourselves through investment in the anaerobic digestion market. As we embark on our new venture with Biogen we will be able to bring to bear our financial engineering capability, our construction skills and our operational expertise to accelerate the growth of the business. We continue to seek further integrated opportunities where we can offer excellence to our customers.

Travelodge
Hemel Hempstead

A new 108-bedroom Travelodge along with a Toby Carvery restaurant on the ground floor located at the gateway to Hemel Hempstead's business district. The project successfully delivered a total of 131 modules, 108 of which were en-suite hotel bedrooms. The others consisted of plant rooms, cleaning areas, corridor cassettes and stair cores. All of the bedroom modules are designed specifically to meet the stringent design requirements of the Travelodge brand. At Kier's request the installation was completed using mast climbers as opposed to scaffolding, which improved delivery timescales and reduced costs. Elements Europe also sourced and managed a modular pre-cast concrete lift shaft for the scheme. All pods were installed on top of a steel grillage transfer system, which then provided suitable ground floor reception and back of house areas. This was Kier's first ever fully modular development, and was completed to a high acoustic rating due to its location on the main link road to the M1 Motorway.

Maximising assets

Investing in our people

What is being accomplished?

Kier's ongoing success has been built upon the remarkable skills, efforts and loyalty of our people. When we say 'our people' we genuinely include the whole range of Kier people from our street services operatives across the country to our most highly qualified engineers working on highly technical projects under the streets of London and Hong Kong. We also value the spread of disciplines that make a company like ours tick – the quantity surveyors, accountants, project managers and safety supervisors. As with all successful companies, the quality of leadership at every level is what really delivers great customer service and extraordinary performance. We have always been committed to excellence in management and over the last four years have developed an employee engagement strategy that this year has seen us undertake a major staff survey. Over 65% of our staff responded and – despite the market and conditions – we have had some very encouraging feedback. However we have a number of areas where we can still improve and ensuring our leaders embrace the learning and communication challenges this will bring is a key target for us over the next year. Our innovative 'Team Leader Apprenticeship' has now been officially launched by Vince Cable MP and we have been recognised as the 'Apprentice Employer of the Year' by the UKCG. Our bespoke Foundation Degree is now entering its fifth year and we now have 132 graduates or undergraduates via this programme. Amongst the leadership team we have launched a leadership charter in partnership with RMA Sandhurst through which we aim to ensure all our senior management are seen to be motivational at all times. This wide range of development activity will help ensure that we maximise the potential of our people at every level, thus ensuring they are able to contribute to the future success of our business.

Why is it necessary?

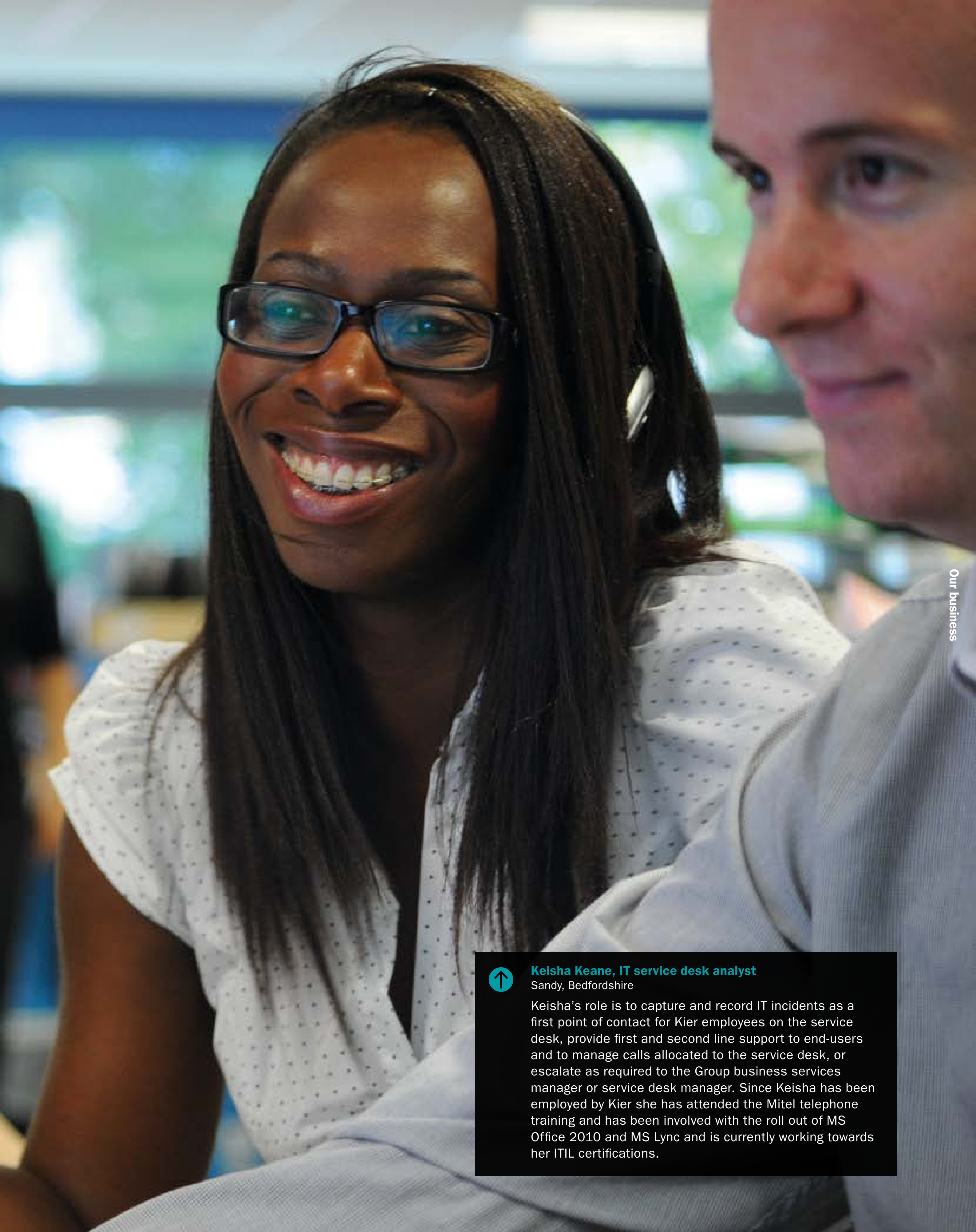
By focusing on growing markets, by staying focused and resilient in changing times and by leveraging our integrated business model, the Group will remain strong and will be capable of substantial growth in coming years. But we cannot do any of these things unless we have people who are sufficiently skilled, qualified and motivated to make them happen. Only by ensuring that we engage with and develop our people can we remain agile in adapting to new market opportunities. Only by good, intelligent leadership can we forge fresh approaches and bring innovative solutions for our customers. Only by having the best engineers and other professionals can we deliver a truly professional and reliable business that customers can rely upon. Finally, looking after our people is a firm cornerstone of our Group corporate responsibility commitment.

How will it work?

We continually innovate with best practice in all of our training and development programmes, review progress and outcomes and adjust them or add to them as required to cater for our diverse workforce. We embrace new methods of delivering our training initiatives through a mix of classroom learning, coaching, e-learning and experiential learning. We are fully committed to giving all our employees at all levels access to excellent training opportunities to become productive members of the Kier team.

What's next?

We will continue to review and improve all our employee training and development based upon the feedback, workshops and action plans which are being formulated following our recent employee engagement survey. We have also established a working group to develop a more robust equality and diversity policy and a wider reaching strategy in our aim to foster a culture of tolerance and open-mindedness that embraces diversity in all of its forms across all of our businesses. The fundamental purpose of this approach is to ensure we have tomorrow's leaders in the business today and that they are nurtured and up-skilled to take on the challenges of our current economic landscape.



Keisha Keane, IT service desk analyst
Sandy, Bedfordshire

Keisha's role is to capture and record IT incidents as a first point of contact for Kier employees on the service desk, provide first and second line support to end-users and to manage calls allocated to the service desk, or escalate as required to the Group business services manager or service desk manager. Since Keisha has been employed by Kier she has attended the Mitel telephone training and has been involved with the roll out of MS Office 2010 and MS Lync and is currently working towards her ITIL certifications.

Executive directors
Ian Lawson (left) is executive director responsible for Kier Services and Kier Property, and Steve Bowcott (right) is executive director responsible for Kier Construction.

Kier Construction

p25

Revenue
(2011: £1,445m)

£1,383m

Key achievements

Awards

UK building	£1.0bn+
Education	£400m
P21+ & Healthcare	£150m
Kier Living	£150m
Crossrail (JV)	£210m
Hinkley (JV)	£100m+

More information online
www.kier.co.uk/construction

Kier Services

p30

Revenue
(2011: £484m)

£445m

Key achievements

Awards

Circle	£180m
FM	£150m
Environmental	£100m
Total other new work	£215m

More information online
www.kier.co.uk/services

Kier Property

p34

Revenue
(2011: £250m)

£241m

Key achievements

Development pipeline	£750m+
Mixed-tenure pipeline	£250m+
Preferred bidder	£100m+
Biogen investment	

Disposals

PFI assets	£8m
Savile Row	£33m
Housing land	£18m

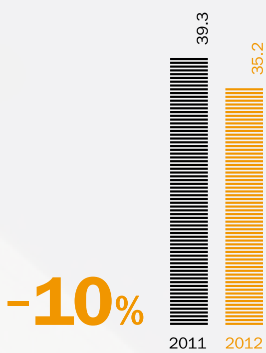
More information online
www.kier.co.uk/property

Kier Construction

The Construction division encompasses our UK regional contracting, civil engineering and overseas businesses, which are highly skilled in the construction of the full range of building projects, together with power, waste, nuclear and infrastructure facilities, rail and mining projects.

Revenue £m

Operating profit £m



Order book

£2.2bn

(2011: £2.2bn)

Operating margin

2.5%

(2011: 2.7%)

Kier Construction contract awards

Public sector

50%

(2011: 56%)

Private sector

50%

(2011: 44%)

SeaCity Museum
Southampton

The project to create the SeaCity Museum involved converting Southampton's Grade II listed former Magistrates' Courts at the Civic Centre into 2,000sq m of exhibition and learning space, as well as public areas including a gift shop and café. The museum not only tells the captivating story of the Titanic but also showcases Southampton's maritime past.

Operating review Kier Construction

We continue to have good visibility of high quality opportunities with 63% of our contract awards during the year arising from our numerous frameworks and similar arrangements.

Construction business review

Revenue in Construction was 4% lower than last year, at £1,383m (2011: £1,445m), reflecting the challenging UK building market, mitigated in part by an increase in the Group's overseas and UK infrastructure volumes.

We maintained our focus on securing higher quality work, and although our operating profit decreased to £35.2m (2011: £39.3m), the 2.5% operating margin (2011: 2.7%) represented a good performance. The operating margin was supported by a solid cash performance delivering a year-end cash balance of £361m (2011: £423m), after cash outflows for investment and major project completions of approximately £45m during the year. We do not however expect the current challenging UK market to improve in the short term and this will inevitably put further pressure on UK construction margins and cash performance over the next 12 to 18 months.

We continue to have good visibility of high quality opportunities with 63% of our contract awards during the year arising from our numerous frameworks and similar arrangements. These awards, as part of the total £1.4bn awarded, have maintained the secured and probable order book at £2.2bn (2011: £2.2bn). We are active on numerous frameworks across the UK through which clients continue to procure a significant element of their work with a focus on quality, whole lifecycle costs and the financial strength of their chosen partner.

Approximately 50% of our awards were for public sector projects (2011: 56%), and we predict that the balance of public sector to private sector work will stabilise at these levels.

Of the public sector awards, we continue to be successful in the education sector, which accounted for 31% of awards (2011: 33%). Despite the decline in education spending, opportunities under the replacement Contractors' Framework for Academies

Featherstone Prison
Wolverhampton

The completed house blocks at Featherstone Prison, near Wolverhampton. This new Category 'B' prison facility involved building three 480-place house blocks and additional associated facilities and was completed this year.

> In the private sector, the commercial, power and waste sectors are providing us with the most significant opportunities.

have resulted in ten schemes being financially closed or achieving preferred bidder status during the year with a combined value of circa £200m. We look forward to participating in the Free School opportunities, the University Technical College programme and the forthcoming Priority Schools Programme, although continued delays to these have affected the whole industry.

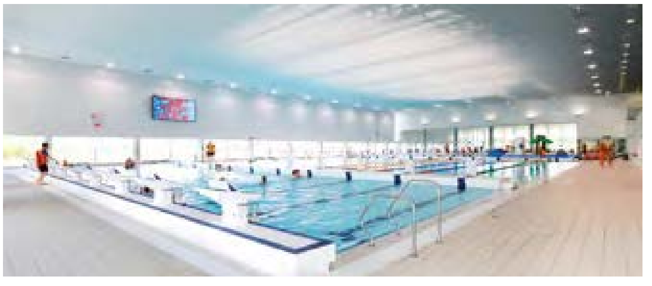
The six-year ProCure 21+ framework, which commenced in October 2010, continues to generate opportunities and our healthcare sector represented 10% of our awards (2011: 6%), with a value approaching £150m in the year. In October 2011, we were awarded a place as a delivery partner for the three Designed for Life – Building for Wales2 (DfL2) regional frameworks for healthcare projects of up to £10m each and we are also shortlisted for the DfL2 national framework for projects over £10m.

In June 2012, we completed our flagship £200m Category 'B' prison facility for the Ministry of Justice at HMP Oakwood at Featherstone, Wolverhampton. The scheme has validated the new and innovative model developed by our client demonstrating that a high value, complex and large-scale facility can be successfully procured and delivered through a design and build route. The project was completed ahead of schedule, under budget and to an excellent quality standard. Also in the custodial sector, we secured a place on the Ministry of Justice Northern Regional Framework and its National Framework for projects over £10m, both starting in April 2013 for six years and each valued at between £50m and £100m.

In the private sector, the commercial, power and waste sectors are providing us with the most significant opportunities. During the year, we secured circa £200m of commercial building projects, representing approximately 14% of our contract awards during the year. We commenced work on the £42m Arthouse at King's Cross for Argent, secured the Camden Civic Centre project on the King's Cross development, and the Sainsbury Wellcome Centre contract at University College London, Howland Street, in London, with a combined value of approximately £130m.

MTRC contract 824 Ngau Tam Mei to Tai Kong Po tunnels
Express Rail Link, Hong Kong

The contract is part of the 16km-long new underground rail link between Hong Kong and Guangzhou in China.



Hengrove Park Leisure Centre
Bristol

In February hundreds of people attended the official opening of Hengrove Leisure Centre, Bristol. The project boasts a 50m Olympic-standard pool and a teaching pool with moveable floor. The centre also has a four-court sports hall, 150-station gym, dedicated spin studio, two group exercise studios, a health suite, spa, sauna and steam room, indoor climbing wall and healthy living zone.

Operating review Kier Construction

Our strategic relationship with Argent Group at the King's Cross Central Development continues to be a success, providing approximately £100m of work in the year, with further sizeable opportunities anticipated over the next 12 months.

Our Kier Living business, which is highly successful in bidding and delivering high rise contract housing, care homes and similar residential establishments, has also performed well, having secured over £150m of projects during the year.

Our Infrastructure business continues to progress in the transport, power and waste markets in the UK and overseas. On Crossrail, at the C300/410 Western Tunnels project (valued at circa £500m) the first Tunnel Boring Machine (TBM), commenced operation in May 2012 and is now heading towards its destination at Farringdon. The second TBM commenced boring in August 2012. The overall completion for this project is due in mid-2015. Our second major contract at Farringdon Station (circa £210m) for civils, tunnelling and fit-out works has now commenced with design works under way and substantial completion is scheduled for mid-2016.

The energy sector remains a key focus and we expect significant activity in this area as the UK's ageing power stations are replaced or upgraded over the next ten years, although the ongoing delays to the Electricity Market Reforms by the Government continue to defer this significant programme of work. In December 2011, in the power sector, we were awarded the £100m+ contract, in joint venture, by EDF Energy to carry out site preparation works at the Hinkley Point C nuclear power station project in Somerset. The £50m contract to build an energy-from-waste plant in Plymouth for MVV and South Devon Waste Partnership, awarded in 2011, is now under way having received all the necessary approvals. We are also preferred bidder for a new £45m waste treatment facility at Wakefield where we expect financial close in the second half of 2012.

We continue to undertake infrastructure and civil engineering projects for AWE at Aldermaston and Burghfield and are also developing the design and target costs for a major plant at Urenco, Capenhurst, with potential work valued in excess of £50m.

Overseas, in our key geographies, we are seeing increased activity, enabling our international business to continue to grow. In Hong Kong, our two projects for the Mass Transit Railway (MTR) Corporation, totalling more than £300m in joint venture, are progressing well and we have been short-listed for a third major scheme on the forthcoming Shatin to Central Link for the same customer. We have a good pipeline of opportunities and continue to target, on a selective basis, a number of other MTR and government infrastructure projects. In the Middle East, we have secured further core work for the Dubai Municipality, another long-term customer, and are seeing an increase in tender activity in the region, particularly in our focus markets of Saudi Arabia, Abu Dhabi and Iraq. In the Caribbean, our business has enjoyed another good year and has delivered excellent results. In addition to a number of significant wins in Jamaica, including a £17m hydroelectric scheme, we have also secured our second project in Haiti for one of our key customers, Digicel. We are confident that our success in the region will continue as the business secures further work in Jamaica and extends its activities into Trinidad & Tobago.

Construction markets and outlook

Notwithstanding our strong market position, and healthy order books, we face continued difficult trading conditions in the UK. There is a significant shift in spending patterns from public sector social infrastructure projects to private sector and areas of regulated spend, and we remain focused on the careful selection of quality work through frameworks and similar arrangements, while targeting the power, waste and transport markets and commercial building projects from our long-term customers.

UK mining operations
Greenburn, Ayrshire

At our UK mining operations in Greenburn, we despatched our five millionth tonne of coal in July. We have also completed the construction of a 21m arch bridge across the River Nith which gives access to a further 1.5 million tonnes of reserves in the Braehead site. The bridge was designed and constructed in house and had to be capable of bearing the weight of the massive 300t excavators utilised at Greenburn.

Gloucester Coroner's complex
Barnwood, Gloucester

The completed £2.6m dual-function building provides a practical solution to the county's autopsy requirements and a central courtroom facility for the coroner's hearings. The project was completed early, with zero defects and within budget. Collaborative team working saw Cheltenham-based Kier Construction scoop the 'Value Award' at the South West Built Environment Awards 2012 for the project.

Our approach to pursue overseas work and UK infrastructure opportunities has delivered a total current tender pipeline in UK infrastructure of approximately £1.8bn spread across the power, regulated, water and waste sectors. We also see growing opportunity across our overseas operations. In Hong Kong, building upon our ongoing projects for the MTR, we are targeting the significant forecast investment spend of more than £15bn per annum in infrastructure, including rail, education and regeneration projects. In the UAE and particularly Saudi Arabia we are focused on power, education, health and infrastructure work, which is expected to create £400bn of projects by 2020. In the Caribbean, where this year we celebrated 50 years of experience in Jamaica, we have opened an office in Trinidad to continue our growth in the region, targeting more than £100m of identified opportunities.

With our broad and flexible capability, we are able to adapt to changing markets and access a healthy pipeline of quality opportunities. During the year, we have developed several new products and services to further enhance our ability to secure work in our identified growth areas. Examples are Kier Living, referred to above, Kier Defence, which is looking to gain access to the national and regional frameworks that are currently being developed by the Ministry of Defence and i&r, a new Kier brand for interiors contracting.

The diversity of our skill set enables us to target the expansion of UK infrastructure and overseas work as the UK building market continues to decline and become more competitive. Our focus on quality opportunities will help us maintain a stable, profitable and cash-generative business in the coming years.

“With our broad and flexible capability, we are able to adapt to changing markets and access a healthy pipeline of quality opportunities.”

Richard Rose Morton Academy
Carlisle

This new £24m academy accommodating 1,150 pupils in addition to a 250-place sixth form was constructed as part of the Partnerships for Schools Cumbria Academies Programme. The existing school remained operational throughout the construction process.

Kier Services

The Services division comprises three main businesses: Maintenance, which provides both reactive and planned maintenance largely to local authorities and housing associations; FM, providing services to public and private sector clients; and Environmental, offering services for domestic and commercial waste collection and the management and operation of a major recycling facility, street scene and grounds maintenance.

Revenue £m

–8%

	2011	2012
Revenue £m	484	445

Operating profit* £m

–7%

	2011	2012
Operating profit* £m	21.7	20.1

Order book
(Secure and probable)

£2.1bn

(2011: £2.0bn)

Operating margin*

4.5%

(2011: £4.5%)

Kier Services revenue

2012

Maintenance
63%
£280m
(2011: 73% £351m)

Facilities Management and Environmental
37%
£165m
(2011: 27% £133m)

* Before exceptional items and amortisation of intangible assets relating to contract rights.

Danny Riggall, mobile senior engineer
Rutherford Appleton Laboratories

M&E installation at Rutherford Appleton Laboratories. The laboratory carries out space research and technology development.

Operating review Kier Services

Services business review

Revenue was 8% lower than last year, at £445m (2011: £484m), principally because of the reduction in public sector budgets which affected the planned works in our Maintenance business. This was mitigated in part by modest revenue improvements in the FM and Environmental businesses.

The overall operating margin has been maintained at 4.5% (2011: 4.5%), before deducting the amortisation of intangible assets relating to contract rights of £3.4m (2011: £3.4m). This highlights our ongoing focus to secure and deliver high quality work, which produced an operating profit of £20.1m (2011: £21.7m). Cash balances remained resilient at £19m (2011: £28m) after incurring approximately £5m of redundancy and restructuring costs to realign the cost base in light of the lower volumes of work in Maintenance and following investment of approximately £10m primarily in our Environmental business.

There remains a good forward visibility of work, following an improvement in the Services order book to £2.1bn (2011: £2.0bn). Total awards for the year were approximately £650m, offset by a £180m negative adjustment to reflect lower future volumes on one of our long-term Maintenance contracts in response to a client's reduced budget. The £2.1bn does not include potential contract extensions, which could add approximately £800m if all were exercised by our customers.

In our Maintenance business revenues decreased by 20% to £280m (2011: £351m) as a result of the budget constraints faced by local authorities, predominantly in the discretionary area of planned and small capital works. During the year, Maintenance secured contracts with South Essex Homes to repair and maintain 12,000 homes and has secured an early extension to our joint venture arrangement with Harlow District Council valued at £82m to 31 January 2017. We currently maintain approximately

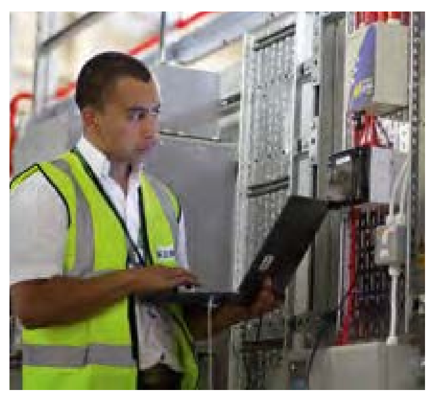
“There remains a good forward visibility of work, following an improvement in the Services order book to £2.1bn (2011: £2.0bn).”

Refuse collection vehicle
East Northamptonshire

During the past two years there has been considerable investment in the most modern refuse collection vehicles to service our contracts in Corby, East Northamptonshire and Norfolk.

Shefina Coke, chef
Moorfoot Building, Sheffield

Shefina works at the Moorfoot Building in the restaurant's front of house, She is part of the catering team assisting the chef in the kitchen or at events taking place at the town hall. She also works in the small shop.



Leon Baptiste, fire alarm engineer
Rutherford Appleton Laboratory

Commissioning/programming a recently installed aspirator fire alarm system in one of our client's buildings.

a quarter of a million homes throughout the UK, representing approximately 5% of social homes in the UK and making us one of the largest providers of housing maintenance services.

Over the past few years, we have been broadening our focus, from our traditional area of strength with local authorities, to housing associations. There is a solid pipeline of opportunities in this area, and we secured the largest housing maintenance contract to come to the market this year with Circle. The contract has an anticipated value of £350m over ten years (five years contracted and a potential five-year extension) and reflects how certain clients are reducing their number of suppliers to meet tighter budget targets.

Our Environmental business continues to grow, with revenues in excess of £40m, and now looks after 1.1m UK residents, emptying 33m household bins every year. During the year, the business secured approximately £100m of new work, including an early extension to our contract with Corby District Council, valued at £20m, and is preparing to mobilise on our new contract with the Borough of King's Lynn and West Norfolk, valued at £28m.

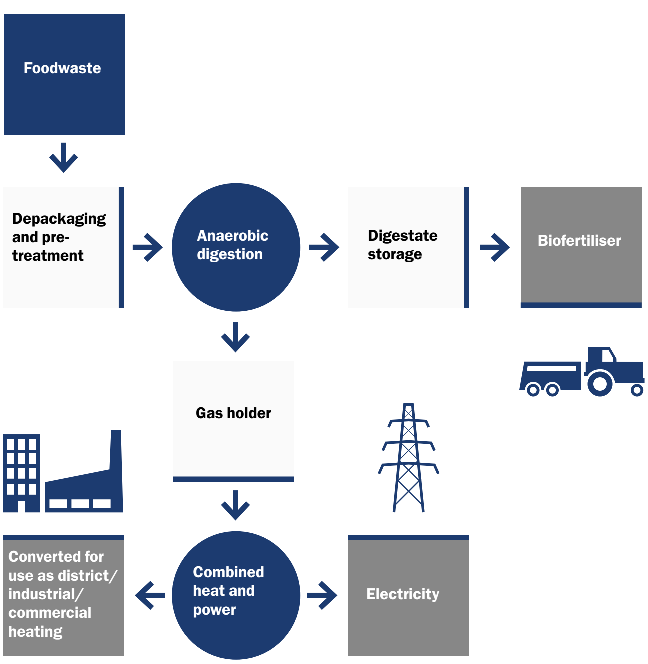
Our Pure Recycling materials recovery facility in Ettington, Warwickshire, continues to operate well and has processed nearly 100,000 tonnes of material during the year. As previously mentioned, in August 2012 we announced our investment in Biogen (UK) Limited, which designs, builds and operates large-scale AD plants to process food waste and produce renewable energy. These services will enhance Kier's Environmental business, particularly after the initial two-year investment phase, and will provide intelligent solutions for the treatment of many different types of waste.

Our FM business has seen modest growth over the year with revenues of approximately £120m and has improved its penetration into the private sector FM market. Our FM team currently looks after approximately 6,000 commercial properties across the UK.

New contracts secured during the year totalled in excess of £150m, and include contracts to provide total FM nationally for blue-chip customers such as the RAC and Siemens Enterprise Communications alongside more local contracts such as that for Westminster College. All of which increase our share of the private sector market.

The Biogen process

In July Kier formed a 50:50 joint venture with Bedfordia, in order to target the growing anaerobic digestion market. This business is being led by the Property division during its development phase but adds to the Services division's current Environmental business capabilities (see page 12 for details of this investment).



Biogen
Bedfordshire

We completed the £24.4m investment over five years in Biogen (UK) Limited, establishing a 50:50 joint venture with the owner of Bedfordia Group plc. The business currently owns and operates two large commercial anaerobic digestion plants in the UK, with plans to build a number of further plants in strategic locations.

In the public sector, we have been successful through several private finance deals in which Kier has been selected to provide an integrated PFI solution for blue light services. Contracts for London Fire Brigade and Staffordshire Fire and Rescue, with a combined FM value of £34m, provide 25-year visibility for the FM business. In addition, contract wins with Hampshire and Surrey County Councils and London Borough of Bexley with a combined value of £59m demonstrate strength and customer confidence in our traditional public sector marketplace.

Services markets and outlook

While the current economic conditions continue to constrain our clients' budgets, we ultimately expect to see an increased level of outsourcing opportunities as both the public and registered provider sectors, in particular, continue to seek to alleviate cost pressures and examine their current service delivery requirements.

We currently anticipate that this increase in activity will translate into revenue growth, particularly for our Maintenance business in the year to 30 June 2014, although predicting the timing of contract awards is challenging. We do not anticipate any of our significant contracts being re-tendered before 2014, which provides stability over the intervening period. The cost pressures on local authorities are also leading to an increased level of opportunities for our Environmental business where we anticipate further revenue growth although across all sectors the focus on cost reduction will inevitably lead to some pressure on operating margins.

In the private sector, customers continue to examine their cost base, which will provide us with opportunities as non-core activities are outsourced. Our diverse offering, covering both hard and soft FM, has performed well during the year and continues to seek to grow in scale, which remains a focus for us.

The Services division's performance remains robust, with an improved £2.1bn order book giving good forward visibility of workload, coupled with potential extensions of £800m and a steady pipeline of further opportunities. We remain optimistic about the medium-term prospects in our core markets and will continue to progress those areas where we see the most potential for growth.

> We remain optimistic about the medium-term prospects in our core markets.

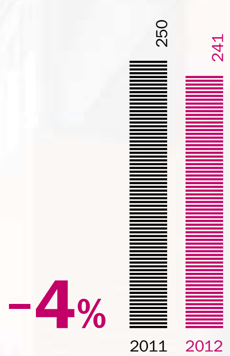
Pure Recycling
Ettington

Our Pure Recycling materials recovery facility continues to operate well and has processed nearly 100,000 tonnes of material during the year. Jacek Hopko is pictured above.

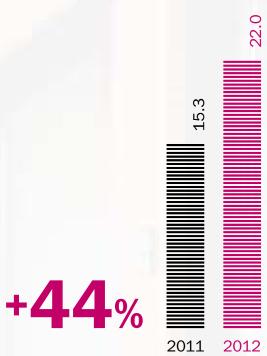
Kier Property

Our Property division comprises three main businesses: commercial, industrial, retail and mixed-use property development; structured property financing; and homes, including both private and affordable housing.

Revenue £m



Operating profit* £m



Property development pipeline

£1.0bn

(2011: £0.8bn)

Land bank

4,180 plots

(2011: 4,849 plots)

* Before exceptional items.

Fire stations PFI project
Gloucestershire

The blue3 consortium, led by Kier Project Investment (KPI), was selected as preferred partner for the Gloucestershire Fire and Rescue Service Community Safety Project in April 2010. The project involves the construction and ongoing maintenance of four new community fire stations and a Life Skills Centre in Gloucestershire. The final facility was handed over in July 2012. The solutions, which achieve BREEAM 'Excellent' and include on site renewables generating up to 25% of the energy demand, include an interactive educational centre known as 'SkillZONE'. The centre will help Gloucestershire residents to live, work and play more safely by allowing a range of visitors including schools, parents, carers, and community and business groups to experience first-hand a range of risks and their consequences within a safe environment.

Operating review Kier Property

Within the property development business, there have been a number of successes during the year.

Property business review

Revenue for the year to 30 June 2012 of £241m (2011: £250m) was 4% lower than last year. However operating profit was significantly ahead at £22.0m (2011: £15.3m) as we continue to develop our £750m development pipeline, selectively dispose of our mature PFI investments and progress our housing activities.

Within the property development business, there have been a number of successes during the year. The disposal of 3 Savile Row was completed in the second half of the year at a value in excess of £33m and in our industrial portfolio, unit sales continued at Uxbridge and the final unit at Romford was sold. Construction has commenced at Sydenham, a former National Grid operational site, on over 100,000sq ft of pre-let retail space, where completion is expected in the summer of 2013.

At Western International Park in Hounslow, a two-acre plot adjacent to our main proposed development scheme was disposed of after enhancing the development value through the planning process, and ten acres of residential land at the former Ordnance Survey headquarters site in Southampton was also sold. During the year new sites were acquired in Sunbury, where we are constructing 34,000sq ft of industrial units of which over 30% are already pre-let, and in Bracknell where we are undertaking demolition works prior to building 39,000sq ft of pre-sold industrial units.

We were pleased during the year to be chosen by Siemens as its preferred development partner for a major mixed-use scheme in Manchester. The scheme, which has a development value of between £120m and £150m over the next five years, will be anchored by a new c. 100,000sq ft headquarters office for Siemens together with an associated Renewable Energy Efficiency Centre. Work will include refurbishment of the current Sir William Siemens House.

More recently, in August 2012, we were appointed preferred partner to the Health Campus Partnership (formed by Watford

Fire stations PFI projects
Gloucestershire

Kier is involved in the construction and ongoing maintenance of four new community fire stations and a Life Skills Centre in Gloucestershire. We have also recently been awarded preferred bidder status on both the London Fire Service and Staffordshire Fire Service schemes, which between them will provide 20 new fire stations at a combined value of more than £100m.

Operating review Kier Property

Our portfolio of PFI projects now totals ten schemes, eight operational and two at preferred bidder stage.

Borough Council, West Hertfordshire Health Trust and Watford Football Club) on the £240m Watford Health Campus project. This will be a mixed-use development, including new hospital facilities for Watford and south-west Hertfordshire; up to 650 homes, 35% of which will be affordable; a pre-let office; and a large multi-storey car park. The Health Campus Partnership has been established to regenerate land in Watford and the surrounding area, creating new office, retail and industrial space and the potential for 1,600 new local jobs.

Solum Regeneration, our joint venture with Network Rail, now has three schemes on site. At Epsom 95% of the scheme by value has been pre-let and is due for completion later this year. At Walthamstow, the 107-bed hotel and 35 affordable apartments together with 1,300sq ft of retail accommodation have all either been pre-let or pre-sold. In Christchurch, we are building seven affordable apartments for a local housing association and 17 houses for private sale. The portfolio continues to expand with 11 schemes under contract at 30 June 2012 and several further opportunities expected to be added in the next few months.

We continue to be encouraged by the strong pipeline of opportunities and anticipate the level of capital investment to increase towards £100m by June 2013, on which we are targeting a 15% return on capital.

During the year, in our structured property financing business, we disposed of two equity investments in West Berkshire and Hinchingbrooke Hospitals at a valuation discount rate of approximately 7%, the latter being acquired by the Kier Group Pension Scheme at its market value of £3m. We have also recently been awarded preferred bidder status on both the London Fire Service and Staffordshire Fire Service schemes, which between them will provide 20 new fire stations at a combined value of more than £100m. Our portfolio of PFI projects now totals ten schemes, eight operational and two at preferred bidder stage and

Siemens headquarters
Didsbury, Manchester

Kier is the preferred development partner for Siemens' existing campus in Didsbury, Manchester. The vision for the site is to create a new 100,000sq ft headquarters building as part of a wider office park. Set within a high quality landscaped environment, the development will provide a range of complementary uses supporting both new and existing business and residential communities.

“”

Our affordable housing and mixed-tenure business has performed well this year, delivering nearly 300 homes, of which more than 80% were affordable.

our committed equity investment stands at £23m (2011: £21m) including £5m for preferred bidder projects, of which £18m has been invested to date. The directors' valuation at a discount rate of 7.5% is £34m.

Our affordable housing and mixed-tenure business has performed well this year, delivering nearly 300 homes, of which more than 80% were affordable. Our position as a Homes and Communities Agency (HCA) Investment Partner and a member of the HCA's Developer Partner Panel coupled with our Affordable Housing Programme grant allocation has enabled the business to secure in excess of £285m of new orders. All of these are a combination of affordable housing integrated with private housing for sale on HCA and public sector land with land payments being made on a deferred basis.

These successes have generated a forward pipeline of work in excess of £250m, which equates to 1,900 affordable and private sale plots and provides a strong platform for the next five years.

Our first mixed-tenure regeneration scheme with Birmingham Municipal Housing Trust is firmly established and selling strongly and we have also secured the next phase of the development comprising 420 new homes with a development value of circa £52m. We have successfully secured the Manor and Kingsway Regeneration scheme comprising 700 new homes and 21,000sq m of office accommodation in Derby together with the regeneration of Ransome Road in Northampton, which involves the construction of 420 new homes.

Our private housing business exceeded expectations, completing 647 units (2011: 562 units), with 555 private developments and 92 social homes, and has a good pipeline for the following financial year. Sales rates are approximately 0.6 units per trading site per week across our target geographical area. Our cash investment in the private housing business has decreased to

Connect21
Peterborough

A new development of contemporary homes ranging from 1 & 2 bedroom apartments to 2/3/4 bedroom 2 & 3-storey houses.

Formerly a water treatment plant, the site underwent complex ground remediation and engineering works which are now entering into their final stages with the reclamation of peat marshland.

Operating review Kier Property

> The Property division is increasingly bringing together skills and expertise from across the Group to deliver greater value from our schemes and to our customers.

Savile Row
London

This 15,000sq ft commercial property in Savile Row, formerly headquarters to the Beatles' Apple Records, was bought by Kier in 2007 for £17m. It was then remodelled and refurbished for high end retail use and was sold in 2011 for £33m.

£240m (2011: £264m), with committed land sale receipts of £16m due over the next 18 months. Our land bank at 30 June 2012 is carried at a value of £132m (2011: £159m) and is represented by 4,180 plots (2011: 4,849 plots) all with planning consent.

Our strategy to reduce the cash investment in our land bank so that it supports a 500 to 600-unit business continues, with the aim of having a land bank equivalent to approximately four to five years' supply. It remains our intent to sell selectively further land over time; however, we do not anticipate realising profit from these transactions, the focus being instead on cash generation. Private housing on owned land is being built primarily on land acquired prior to the market correction in 2008 and we therefore anticipate modest margins through this business over the next few years. Cash released will be made available, where appropriate, to invest in other parts of the Group.

Property markets and outlook

The Property division is increasingly bringing together skills and expertise from across the Group to deliver greater value from our schemes and to our customers. The current macroeconomic environment reduces confidence and therefore investor activity, which combined with ongoing liquidity constraints makes for a more difficult outlook. However, this will present our Property division with opportunities to utilise the strong Group balance sheet to unlock viable schemes that have been unable to progress due to a lack of funding.

In property development, we will maintain our focus on opportunities in well-located and marketable areas with significant potential for occupier-led, pre-let or forward sale solutions, while targeting a 15% return on capital. Similarly, we continue to pursue innovative funding routes to support the growth in the development pipeline and make the best use of our cash reserves.

In our housing business, we will continue with our strategy to maintain a private 500 to 600-unit housing business, while releasing cash from the land bank over time, and will pursue growth in our affordable and mixed tenure housing business through our well-established relationships with local authorities and housing associations.

Overall, the Property division has established a solid platform with a £750m development pipeline, a £250m affordable housing pipeline and a stable private housing business, and can be expected to deliver a sustainable level of profits over the next few years.

Corporate Responsibility†

Our corporate responsibility mission is to deliver a brighter future for our communities.

Centre: **Paul Sheffield**
Chief Executive
Chairman Corporate Responsibility Steering Committee

Left: **Haydn Mursell**
Group Finance Director

Right: **Alan Smith**
Group Corporate Communications Director and responsible for CR reporting

The 10,000 people employed by Kier really make a very positive impact on people's lives and together we are working towards our CR mission of 'delivering a brighter future for our communities'.

As a major force in our industry it is important that we are seen to lead by example and we are acutely aware of the need to address all aspects of our business behaviour in the course of our operations. Our people, and the environments in which we work and live, are at the heart of what we stand for.

I am pleased to report that Kier continues to make steady progress in all aspects of its corporate responsibility and as a measure of our commitment to improve year on year, I can advise that we have opted to be independently assured by KPMG Audit Plc whose report can be found on page 44.

Our measuring, reporting and monitoring is based on the Business in the Community Corporate Responsibility Index (BITC CR Index) and, in addition, the full CR Report meets the Global Reporting Initiative's guidelines at GRI C+ level.

Financially, Kier remains in good shape despite the downturn and, in line with our corporate strategy, we are positioning ourselves to react to and benefit from new, emerging markets. In parallel with this however, is our need to maintain a solid CR track record if we are to fulfil our plans to grow the business in the medium term. Today's leading companies are closely scrutinised in relation to their performance on corporate responsibility issues and their credibility is tested. Indeed, this is an essential element for any business looking to win work of any significance from today's leading clients.

We know that we cannot be complacent and will always be looking to improve our CR performance. By continuing to benchmark ourselves, setting realistic targets for improvement each year and acting on lessons learned, we believe that real progress can be made. While current market conditions prevail, we have little control over economic issues but in terms of growing our social and environmental performance, now is a really good time for us to act and add value.

This is why I am so pleased that in this reporting year we have successfully launched The Kier Foundation as a fully registered charity and have forged a two-year partnership with Barnardo's. These two initiatives will ensure that our employees will continue to enhance their positive impact upon societies across the UK and beyond.

Throughout the year, Kier employees from all parts of the Group have consistently demonstrated their ability to make a real difference by getting involved in local community projects and fundraising activities. It is reassuring to know that a genuine enthusiasm and commitment to bring about change for the better exists within our business and I am proud of the contribution our employees make, which I am confident will continue in future.

Paul Sheffield

Chief Executive
Chairman Corporate Responsibility Steering Committee

† This section is a summary of the full Kier Group plc Corporate Responsibility Report 2012 which is available online at: www.kier.co.uk/ar2012/crr

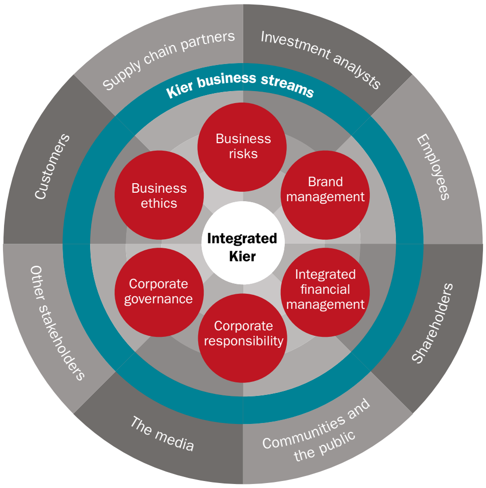
Corporate Responsibility

The Kier Board is committed to improving the Group's performance year on year across all aspects of corporate responsibility and believes it has the capacity to make a positive difference to people's lives and environments. Our CR programme is reported and based upon the broad framework provided by the BITC CR Index alongside the requirements of the industry-specific Considerate Constructors Scheme. The full CR Report on our UK businesses, which is available on-line at the link below, complies with the Global Reporting Initiative (GRI) G3 Sustainability Reporting Guidelines at application level C+ and has been externally assured by KPMG Audit Plc.

Full CR Report
www.kier.co.uk/ar2012/crr

A fully integrated approach

How we manage ourselves as a business directly influences our stakeholder groups and Kier is committed to being recognised as a corporately responsible organisation as part of its vision to be the most highly respected company in the industry.



Managing responsibility

Senior management with clearly defined roles are responsible and accountable to the Kier Board for ensuring that all aspects of our corporate responsibilities, our brand, business risks, governance, ethics and finances are managed responsibly.

Delivering quality

In order to stay ahead, we promote the need to continuously improve our service and product. To do this, we canvass our clients regularly and take action whenever appropriate to improve what we do and how we do it. We recognise that our reputation plays a significant role in the success of our business and aim to exceed client expectations across our full range of services.

Nurturing stakeholder relationships

We engage proactively with our shareholders to promote understanding of our business and how we operate (see 'Relations with shareholders' on page 63). We engage with employees through our employee engagement surveys (pages 5, 12 and 13 of the full CR Report), our customers through satisfaction surveys (pages 3, 4, 6 and 7 of the full CR Report), and our communities through the Considerate Constructors Scheme and The Kier Foundation (pages 3, 4, 14, 15, 16 and 17 of the full CR Report) and our work with BITC, Barnardo's and numerous other charities. However, we do not make any political donations (see 'Directors' report' on page 56).

Full CR Report
www.kier.co.uk/ar2012/crr

CR Steering Committee and Board reporting

Kier Board involvement

During the year ended 30 June 2012, executive directors were eligible to receive a bonus, a proportion of which was payable if corporate responsibility and health and safety performance targets, which are considered to be key non-financial measures for the Group, were achieved. (See Directors' remuneration report on pages 64 to71).

The Corporate Responsibility Steering Committee reports quarterly to the main Board, bringing to their attention issues that require addressing at the highest level. During the year, the Kier Board has devoted time to dealing with such matters as shown in the blue panel.

The role of the Committee

Chaired by Kier Group chief executive Paul Sheffield, the CR Steering Committee comprises senior representatives from all parts of the Group and convenes at least once a quarter.

The committee is responsible for establishing policies, measuring and maintaining the Group's CR impact and ensuring that all strands of our responsibility to society are addressed, communicated and acted upon throughout all parts of the business.

- Group CR Annual Report and KPMG assurance work
- BITC CR Index survey results, targets and actions
- 2010 and 2011 Carbon Disclosure Project submissions
- Carbon Reduction Commitment and the Climate Change Act 2008
- Business ethics and code of conduct
- Bribery Act 2010 and issues concerning e-training and awareness campaigns across the Group
- Waste data collection and target performance
- Community engagement and the creation of The Kier Foundation as a charitable trust and the two-year partnership with Barnardo's
- The Considerate Constructors Scheme monthly performance data and targets
- Web-based iConnecting CR data collection and performance tool initiative
- Feedback from shareholders on CR issues
- Equality and diversity strategy
- Employee engagement survey 2012
- The impact of CR on contract awards

CR Steering Committee

Paul Sheffield (Chair)
Chief Executive

Alan Smith Kier Group	**Jackie Ducker** Kier Services
Nigel Turner Kier Property	**Chris King** Kier Homes
Steve Underwood Kier Construction	**Viv Chesterfield** Kier Group
Andrea Walton Kier Group	**Hugh Raven** Kier Group
Sharon Clark Secretary of CR	**Carol Simmonds** Kier Construction

Marketplace: customers and supply chain

Of necessity, customers are becoming increasingly demanding and seek to work with companies whose activities they can respect. We aim to measure the value of our corporate reputation through regular customer satisfaction surveys.

Customer satisfaction surveys

Perfect scores*	Results exceeding 80%*
26.76%	**79.55%**

Environment and climate change

Our ongoing quest to reduce carbon emissions and the amount of waste that goes to landfill throughout all parts of the business continues. Whenever we are able we will exert our influence to encourage others to do likewise.

Carbon and waste

Emissions tonnes (per £m)* (2010: 34.6t)	Carbon Disclosure Leadership Index score* (2010: 77)
35.2t (2011 calendar year)	**81** (2011 calendar year)

Workplace: health and safety

The significant further reduction in our AIR rate reflects our determination to create safer working environments through strong leadership underpinned by our Behavioural Safety Leadership Programme.

Accident Incidence Rate (AIR)

Staff (Kier) (per 100,000)* (2011: 389)	Staff (HSE) (per 100,000)* (2011: 736)
301	**536**

Workplace: Employees and training

Kier's 10,000 employees are vital to the success of our business and all should have the opportunity to grow and develop as far as they can. We are keen to keep our workforce engaged and encourage their feedback to enable us to improve as an employer.

Employee development

Craft apprenticeships* (2011: 261)	Foundation degrees* (2011: 99)
248	**132**

Community engagement

The widespread UK coverage of our businesses provides the potential to deliver our CR vision for the benefit of thousands of people wherever we operate by integrating with local communities to make a positive difference.

Community and related programmes

Man hours* (2011: 154,000)	Equivalent value of man-hours* (2011: £3.25m)†
161,254	**£3.08m**

Considerate Constructors Scheme

Kier signed up as an associate member of the Considerate Constructors Scheme in 2008. We have since maintained consistently high scores compared with the industry average and this year have won 37 national CCS awards.

Average Group scores

Scheme monthly score out of 40* (2011: 34.63)	Industry average* (2011: 32.59)
35.09	**33.04**

* Included within KPMG's assurance scope.
† The 2011 figure has been restated using the revised assumptions used for 2012 as set out in the Company's reporting guidelines.

The KPIs that have been referred to in this CR section are defined in the Company's reporting guidelines which can be found on our website www.kier.co.uk/rg

1 The Kier-built Writhlington School in Radstock won a top award in the British Council for School Environments Awards

2 Kier received five Green Hero Awards at this year's Green Apple Awards

3 Kier operations director Mike Davies (right) received the RoSPA President's Award

4 Our comprehensive career development programme covers everyone from new entrant trainee to senior executive

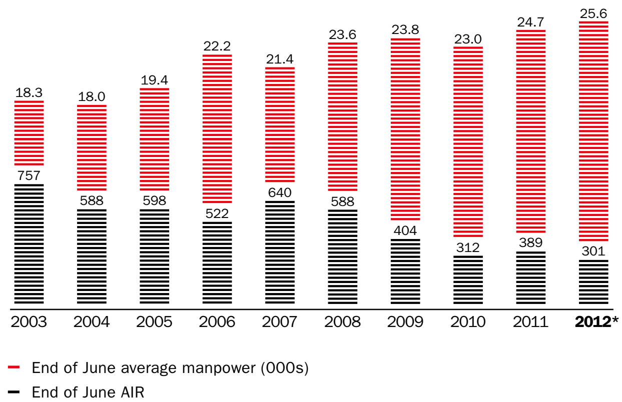
5 The site team at Whipps Cross University Hospital supported Breast Cancer Awareness Month

6 Demonstration of an on-site waste processing plant at a Kier site

Corporate Responsibility

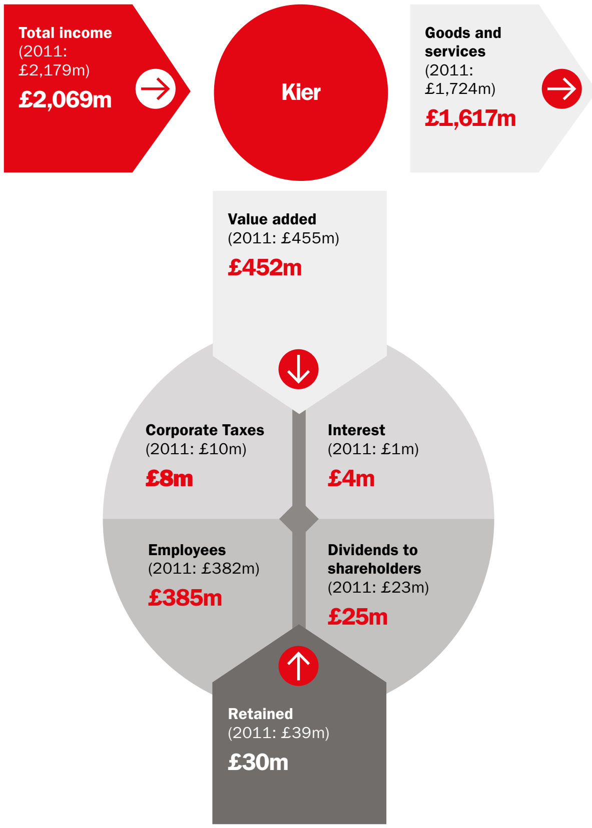
While we are satisfied that our AIR v manpower continues to reduce and that our Considerate Constructors Scheme (CCS) scores are consistently above average, we remain focused on continuous improvement. Our recent employee engagement survey has identified the need to place a greater emphasis on communicating with our workforce at local level and this will be subject to review and discussion at Board level. However, feedback from our annual employee roadshows has revealed that Kier's operations are much better understood by the wider Kier community than before.

AIR v manpower ten-year chart

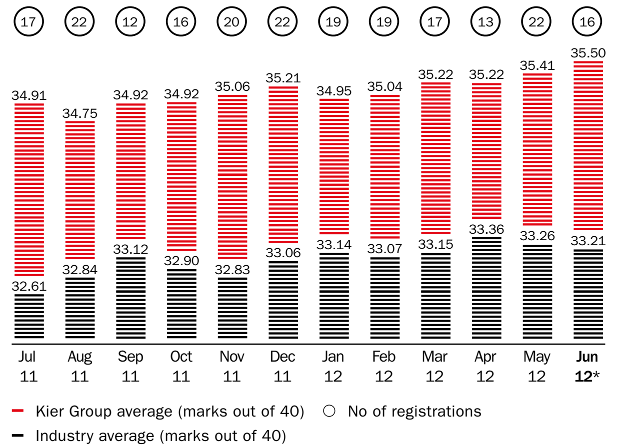


Direct economic value added

To illustrate the economic value generated by our activities, the diagram below summarises detailed financial information from our annual report representing the principal value added to stakeholders.

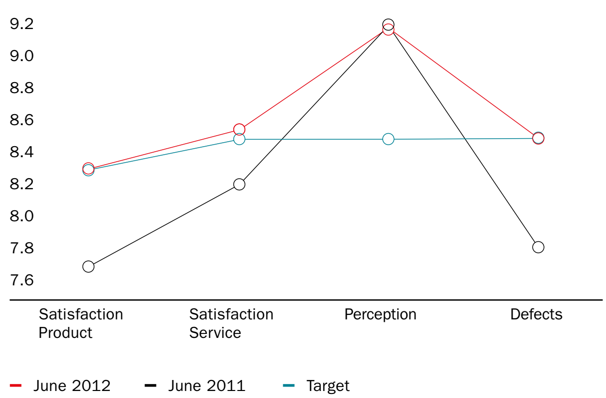


Considerate Constructors Scheme



Customer satisfaction scores

Kier Construction 12-month rolling average scores



* Included within KPMG's assurance scope.

The KPIs that have been referred to in this CR section are defined in the Company's reporting guidelines which can be found on our website www.kier.co.uk/rg

BITC performance

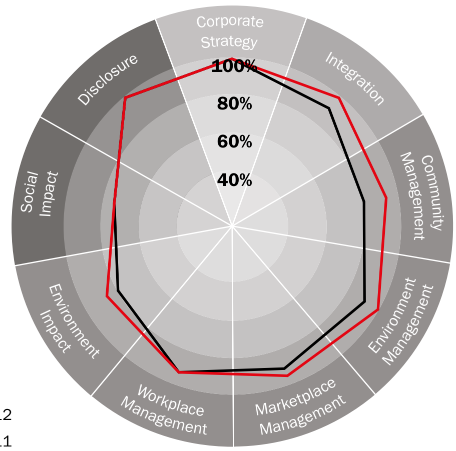
Gold status
(2011: 85%)

90%

The Group participated in the 2012 BITC CR Index, achieving 90% (Gold status), up from 85% in 2011 (Silver status).

Summary performance

This chart summarises Kier's performance across each section of the CR Index survey.



GRI Index performance

GRI Index

C+

Our full CR Report has been assured to comply with application level C+ of the GRI Index

GRI Index
GRI Index contents table level C+ can be found in our full CR Report at:
www.kier.co.uk/ar2012/crr

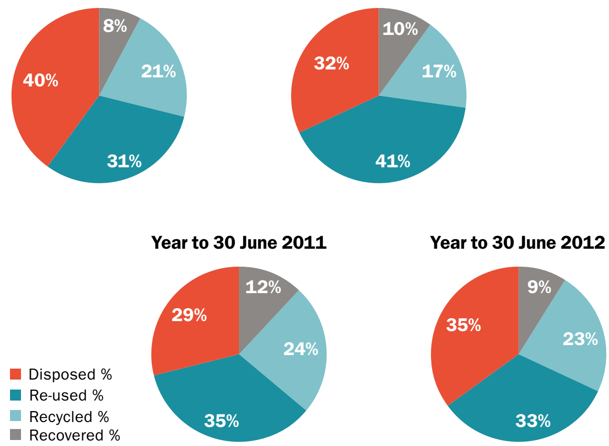
Kier employee feedback

The chart shows how well Kier employees feel they understand CR issues after attending the 2011 employee roadshows that were undertaken throughout the UK. The 1,275 questionnaires returned following the roadshows highlighted that our CR programme was:

Much better understood (2010: 20%)	25%
Better understood (2010: 55%)	55%
The same (2010: 20%)	20%
N/A or not answered (2010: 5%)	0%

Waste management

Data from SMARTWASTE for all businesses' construction, demolition and excavation waste.



Carbon intensity

Kier Group UK operations Scope 1 and 2 emissions

Year	Total Scope 1 & 2 emissions total CO_2 emissions (tonnes)	Intensity total CO_2 emissions /£m turnover (tonnes)	Intensity total CO_2 emissions /employee (tonnes)
2009	71,570	35.7	6.98
2010	75,009	34.6	7.39
2011*	72,366	35.2	7.12

Employee engagement survey

There was a marked improvement in participation levels in this year's employee engagement survey, particularly within our Services division.

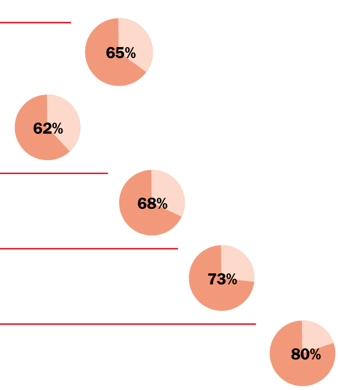
Kier Group
6,454 employees
(2010: 43%)

Kier Services
3,624 employees
(2010: 29%)

Kier Construction
2,395 employees
(2010: 61%)

Kier Property
262 employees
(2010: 60%)

Kier Limited
173 employees
(2010: 77%)



* Included within KPMG's assurance scope.

The KPIs that have been referred to in this CR section are defined in the Company's reporting guidelines which can be found on our website www.kier.co.uk/rg

Our business

Corporate Responsibility assurance statement

KPMG Audit Plc was engaged by Kier Group plc ('Kier') to provide limited assurance over selected aspects of the Kier Group plc Corporate Responsibility section in its Annual Report and Accounts for the year ended 30 June 2012 ('the Report').

This independent assurance report is made solely to Kier in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Kier those matters we have been engaged to state within this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Kier for our work, this report, or for the conclusions we have reached.

Responsibilities

The Directors of Kier Group plc are responsible for preparing the Report and the information and statements within it. They are responsible for identification of stakeholders and material issues, for defining objectives with respect to sustainability performance, and for establishing and maintaining appropriate performance management and internal control systems from which reported information is derived.

Our responsibility is to express our conclusions in relation to the scope set out below.

What was included in the scope of our assurance engagement?

Assurance scope	Level of assurance	Criteria
Reliability of performance data for year ended 30 June 2012 marked with the symbol * on pages 41 to 43 of the Report.	Limited assurance.	Relevant internal reporting guidelines for the selected performance data as set out in Kier's reporting guidelines available at www.kier.co.uk/rg.

The extent of evidence-gathering procedures for a limited assurance engagement is less than for a reasonable assurance engagement, and therefore a lower level of assurance is provided for the data.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the selected sustainability information contained within the Sustainability & Responsibility Report in the context of Kier's Reporting Guidelines available on the Kier website www.kier.co.uk/rg.

In particular, inherent limitations affect the conversion of electricity and fuel used to calculate carbon emissions. Conversion of electricity and fuel used to calculate carbon emissions is based upon, inter alia, information and factors derived by independent third parties as explained in Kier's Reporting Guidelines. Our assurance work has not included examination of the derivation of those factors and other third-party information. Our assurance work has not included challenging the scientific work undertaken by independent third parties when calculating these emissions factors.

Which assurance standard did we use?

We conducted our work in accordance with ISAE 3000[1], with a team of specialists in auditing environmental information and with experience in similar engagements. This standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain limited assurance about whether the data is free from material misstatement.

ISAE 3000 requires that the practitioner complies with the requirements of Parts A and B of the Code of Ethics for Professional Accountants, issued by the International Ethics Standards Board for Accountants (the IESBA Code) which requires, among other requirements, that the members of the assurance team (practitioners) as well as the assurance firm (assurance provider) be independent of the assurance client, including not being involved in writing the Sustainability & Responsibility Report and plan and perform the engagements to obtain limited assurance about whether data is free from material misstatement. The Code also includes detailed requirements for practitioners regarding integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. KPMG Audit Plc has systems and processes in place to monitor compliance with the Code and to prevent conflicts regarding independence. Our independence with the client is reviewed on an annual basis.

What did we do to reach our conclusions?

We planned and performed our work to obtain all the evidence, information and explanations that we considered necessary in relation to the above scope. Our work was limited to the following procedures using a range of evidence-gathering activities which are further explained below:

> Conducting interviews with management and other personnel at Kier, to understand the systems and controls in place during the year ended 30 June 2012;

> An evaluation of the design, existence and operation of the systems and methods used to collect, process and aggregate the selected performance data as well as testing the reliability of underlying data at a risk based selection of the following sites:
– Kier Services (Maintenance)
– Kier Infrastructure
– Greenburn Coal Mine
– Tempsford Head Office
From a Group perspective these sites represent:
– 62% of the selected Environment and climate change data;
– 100% of the selected Workplace data;
– 100% of the selected Marketplace data;
– 74% of the selected Community engagement data; and
– 100% of the selected Considerate Constructors Scheme data.

What are our conclusions?

The following conclusions should be read in conjunction with the work performed and scope of our assurance engagement described above.

> Nothing has come to our attention to suggest that the performance data marked with the symbol *, on pages 41 to 43, are not fairly stated, in all material respects in accordance with the relevant internal reporting guidelines for the selected performance data.

Andrew Marshall for and on behalf of KPMG Audit Plc
Chartered Accountants
London
12 September 2012

[1] International Standard on Assurance Engagements 3000: Assurance engagements other than Audits or reviews of Historical information, issued by the International Auditing and Assurance Standards Board

Financial review


Haydn Mursell
Finance Director

Profit before tax*

+2%

2012 **£70.0m**
2011 £68.9m

Earnings per share*

+6%

2012 **156.8p**
2011 148.4p

Dividend per share

+3%

2012 **66p**
2011 64p

In conjunction with the chairman's statement and the chief executive's review, this report provides further information on key aspects of the financial performance and the financial position of the Group.

Accounting policies

The Group's annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. There have been no significant changes to the accounting policies adopted by the Group during the year to 30 June 2012.

Financial performance

	2012 £m	2011 £m	Change %
Revenue: Group and share of joint ventures	2,069	2,179	-5%
Operating profit: Group and share of joint ventures*	74.4	71.1	+5%
Profit before tax*	70.0	68.9	+2%
	p	p	
Earnings per share*	156.8	148.4	+6%
Dividend per share	66.0	64.0	+3%
	£m	£m	
Average month end net cash balance	95	129	-26%

* Before exceptional items and amortisation of intangible assets relating to contract rights.

Operating profit*

+5%

* Including joint ventures, before the amortisation of intangible assets relating to contract rights.

Revenue has slightly decreased by 5% (£110m), as a result of the current market conditions across many of our UK businesses. In Construction, our pipeline is strong; however our key focus remains attracting quality work and we will not seek growth of our revenue at the expense of that quality, preferring to utilise our technical skills to provide the best solution to clients. In Services, revenue declined as a result of a lower level of activity in our Maintenance business, which has been expected as a result of the ongoing budget pressures faced by our local authority customers, particularly in the area of planned and capital works. This was partially mitigated by an improvement in the FM and Environmental businesses in which revenue improved through successful contract renewals and extensions.

Operating profit including joint ventures, before the amortisation of intangible assets relating to contract rights, was 5% ahead of last year at £74.4m. The operating margin in Construction of 2.5%, benefitted from the completion of contracts secured when pricing was less competitive and as a result of our prudent profit recognition policy. In Services, we have maintained an operating margin of 4.5%, which is a good result in light of the lower level of planned and capital works which has affected our Maintenance activities. The sizeable growth in operating profit in Property results from the ongoing progress of our £750m property development pipeline, the good level of housing sales achieved and the disposal of two of our PFI investments, which generated a £6.7m operating profit. Detailed information on the operating performance of each of the divisions is provided within the business review.

Corporate costs

	2012 £m	2011 £m	Change £m
Unrecovered overhead	(0.6)	(0.4)	(0.2)
Pension charge	(2.3)	(4.8)	2.5
	(2.9)	**(5.2)**	**2.3**

Corporate costs at £2.9m have reduced considerably compared to 2011, primarily due to a reduced pension charge relating to our defined benefit pension schemes, and are analysed in the adjacent table.

This reduction is a direct result of changes in the underlying pension assumptions, in particular the discount rate and the expected return on assets. This is covered in more detail in the pensions section of this review.

The Group's net finance cost, analysed below, includes interest receivable arising from average month-end net cash balances of £95m for the year (2011: £129m) after considerable investment during the year, and reflects a reduction in the sub debt interest receivable following the ongoing PFI investment disposals.

The increase in interest payable includes the fees following the extension of our revolving credit facilities, which now total £120m and are available until September 2016. The unwinding of the discount on long-term liabilities and the share of joint venture interest, when combined, have not significantly increased.

The change in presentation is a result of the Lloyds property portfolio acquisition in April 2011, which we now consolidate, whereas prior to April 2011 its results were equity accounted.

	2012 £m	2011 £m
Group interest receivable	2.6	3.7
Interest payable and fees	(3.7)	(2.7)
Unwinding of discount on long-term liabilities	(3.3)	(1.5)
Share of joint venture interest	0.2	(1.4)
Total	**(4.2)**	**(1.9)**

Profit before tax, amortisation of intangible assets relating to contract rights and exceptional items increased by 2% to £70.0m (2011: £68.9m). This includes a joint venture tax charge of £0.2m (2011: £0.3m) and is stated before minority interests of £1.1m (2011: £0.5m). The minority interest relates to the share of profits of our Maintenance business which are attributable to contracts with local authorities.

The Group's effective tax rate, including joint venture tax on joint venture profits, has reduced from 19% last year to 13% mainly as a result the successful completion of negotiations with HMRC, which began in 2010, and the reduction in the standard corporation tax rate to 24%.

Earnings per share before amortisation of intangible assets and exceptional items was 6% ahead of last year at 156.8p (2011: 148.4p), benefiting from the reduction in the effective tax rate.

Exceptional items

Exceptional items amounted to a charge before tax of £3.6m (2011: net credit of £7.0m), as in the adjacent table.

These transactions completed in July and August 2012. However the costs associated with them were recognised in the year to 30 June 2012. The disposal of the majority of our Plant business comprised losses on fixed asset values together with redundancy and external transaction costs. The £0.4m, in relation to the acquisition of 50% of Biogen (UK) Limited, comprised external transaction costs.

Exceptional items

	£m
Disposal of the majority of our Plant business	(3.2)
Acquisition of 50% of Biogen (UK) Limited	(0.4)
Total	**(3.6)**

Cash performance

The Group's cash performance has remained robust, with average month-end net cash balances of £95m (2011: £129m) after considerable investment, reflecting the sharp focus on cash management across the whole Group. This performance produced a net cash position at 30 June 2012, after deducting £30m relating to loan notes, of £129m (2011: £165m).

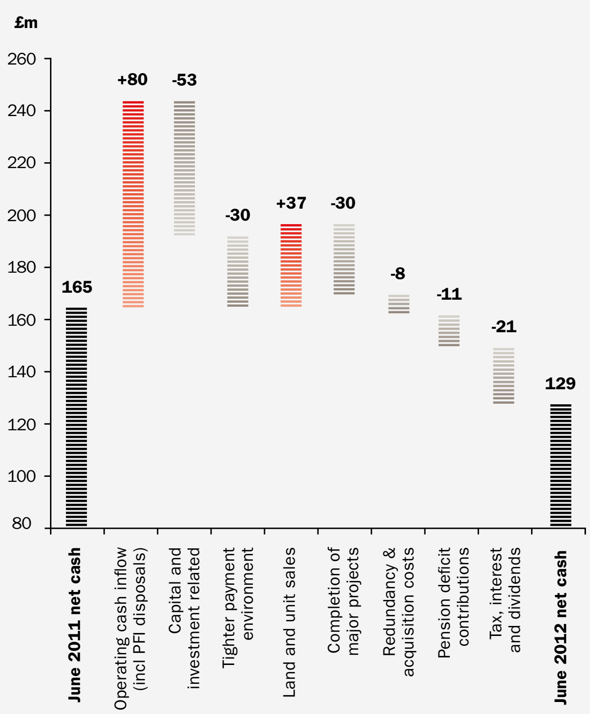
Overall, the Group has invested approximately £50m during the year in its own growth, including mining land and equipment; refuse vehicles, further expenditure in its Pure Recycling business, and ongoing investment in the Property division, including mixed-tenure housing.

Within the Group cash balance at 30 June 2012, Construction at £361m and Services at £19m represented good performances. In addition to underlying trading, they include capital expenditure and investment of approximately £25m, redundancy costs of £7m, the effect of a general tightening of the payment environment and, in Construction, a change in the mix of projects currently being completed, to target cost where the cash profile is different to a typical lump sum contract. Construction has also seen a one-off cash unwind of approximately £30m following major project completions.

In Property, the net debt position improved due to the successful completion of a number of development schemes in the second half of the year following investment in the first half. For example Savile Row completed in March 2012 valued at approximately £33m.

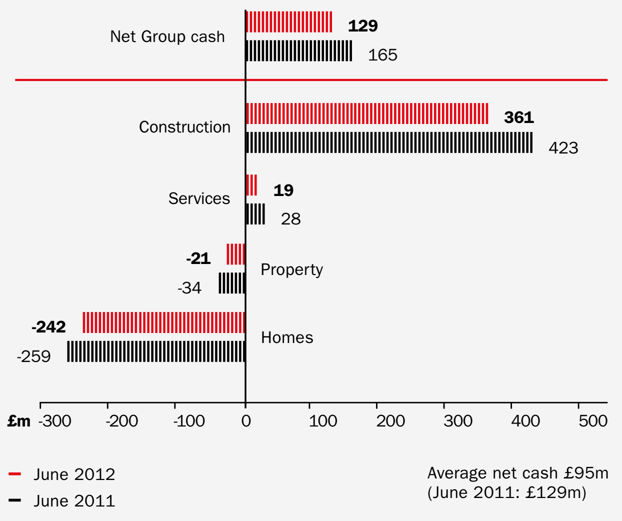
Cash performance

The graph below shows the key movements in the Group's net cash position during the year.

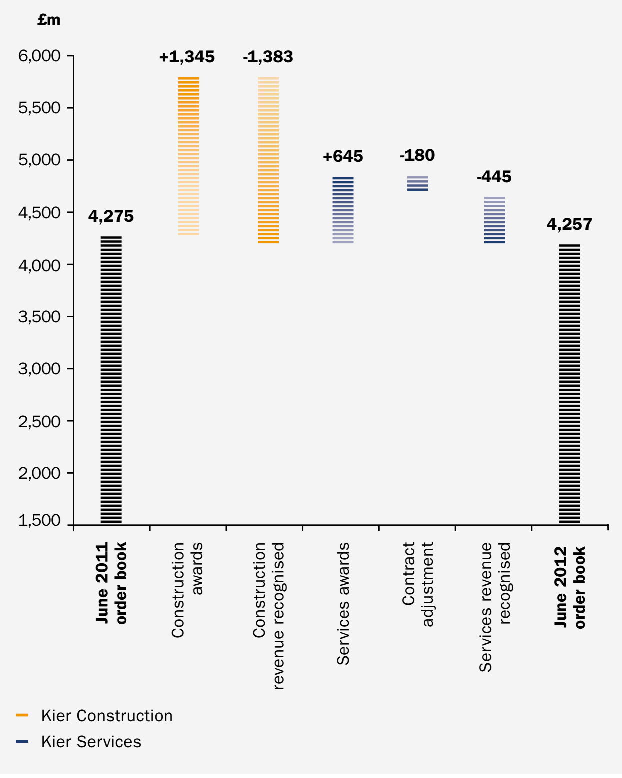


Financial review

Group net cash



Order books



The net debt position across the housing businesses has reduced to £242m, down from £259m, following unit and land sale receipts, partially offset by an increase in work in progress on mixed-tenure sites, which is a growing business with a forward pipeline of work now in excess of £250m.

The Group's cash balances at 30 June 2012 include £85m (2011: £73m) held in joint contracting agreements, overseas bank accounts and other cash arrangements which is not readily available to the Group until the contracts near completion. The liquid cash position is also affected by seasonal, monthly and contract-specific cycles.

Order books

We have maintained our order books in Construction and Services at a combined level of £4.3bn, as shown in the table below, which means we enter the new financial year in a strong position with 95% of the Construction division's targeted revenue and 91% of the Services division's targeted revenue for 2013 secure and probable.

At 30 June	2012 £m	2011 £m
Construction	2,207	2,245
Services	2,050	2,030
Total	**4,257**	**4,275**

During the year, the Services division has experienced pressure on work volumes from our local authority clients with lower levels of additional work than in previous years and volumes much closer to the contracted amounts. However, in one area the workload is now forecast to be below the contracted amount and therefore we have prudently adjusted the order book to reflect this, which has had a negative impact of £180m, as shown in the graph to the left.

Overall, the graph also clearly demonstrates that excluding this adjustment we improved our Construction and Services order books, securing approximately £2bn of new Construction and Services work during the year, which demonstrates the strength of these businesses particularly in the current environment.

Dividend policy

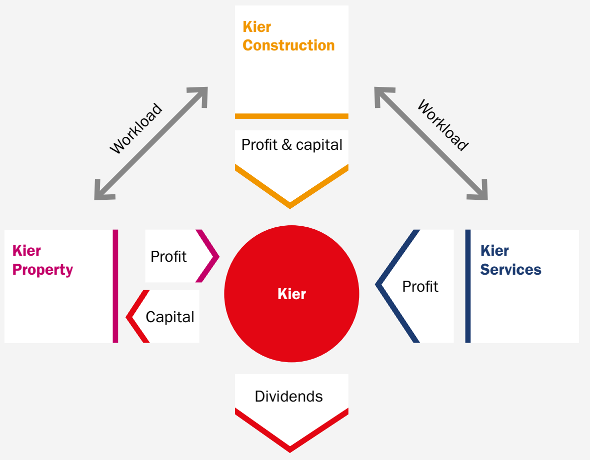
We continue to maintain our progressive dividend policy and taking into account the performance of the Group and its good cash position, the Board has recommended a final dividend of 44.5p, making the full year dividend 66p, an increase of 3% on the total paid in respect of 2011 (64p), and reflecting the confidence in the business going forward. This dividend is 2.4 times covered by underlying earnings per share.

Treasury facilities and policies

The Group has revolving credit facilities, which total £120m, an uncommitted £10m overdraft facility and long-term debt of £30m, all managed by the centralised treasury function.

The revolving credit facilities were negotiated in May 2012 superseding the previous bilateral facilities, and extend to September 2016. A small number of relationship banks provide these facilities which support the Group and its future growth plans. The long-term debt of £30m represents a 10-year UK and US private placement and is due to be repaid in February 2013.

Financial flows and synergies



Net assets
(2011: £164m)

£154m

Average month-end net cash

Analysis of inventories

At 30 June	2012 £m	2011 £m
Residential land	132	159
Residential work in progress	124	133
Property land and work in progress	86	87
Other work in progress	53	52
Total	**395**	**431**

The Group's financial instruments comprise cash and liquid investments. The Group, largely through its PFI and Property joint ventures, enters into derivatives transactions (principally, interest rate swaps) to manage interest rate risks arising from its operations and its sources of finance. We do not enter into speculative transactions.

There are minor foreign currency risks arising from operations. The Group has a limited number of overseas operations in different currencies. Currency exposure to overseas assets is hedged through inter-company balances and borrowings, so that assets denominated in foreign currencies are matched, as far as possible, by liabilities. Where there may be further exposure to foreign currency fluctuations, forward exchange contracts are entered into to buy and sell foreign currency.

Balance sheet and capital structure
Total equity at 30 June 2012 was £154m (2011: £164m).

Acquisitions and intangible assets
The balance sheet at 30 June 2012 includes intangible assets of £29m (2011: £27m) of which £8m relates to building maintenance contracts.

During the period to August 2012, we completed and announced two acquisitions as follows:

> in April 2012, we acquired certain of the construction operations of Aberdeen-based Stewart Milne for a total cash consideration of £1m paid on completion; and

> in August 2012, we completed our investment in Biogen (UK) Limited for a maximum total investment of £24.4m, of which £5.4m was invested on completion. A further £2.5m will be invested in December 2012 and another £2.5m in July 2013. The remaining £14m is scheduled to be invested in instalments over the next four years.

Inventories
An analysis of inventories is given on the left.

At 30 June 2012, residential land and work in progress totalled a combined £256m, a decrease of £36m compared to the June 2011 balance of £292m. This decrease reflects unit and land sales over the year, partially offset by investment in work in progress in our mixed-tenure housing business.

At 30 June 2012, our land bank comprised 4,180 plots, down from over 4,800 at 30 June 2011, all with planning permission. It remains our focus to reduce the cash locked up in our land and work in progress for future investment in the Group. In the year, we completed £18m of land sales on deferred cash terms, at an average breakeven profit position. As we have stated previously, the majority of our land was purchased before 2008 and therefore we do not anticipate recognising profit from land sales, the focus being on cash generation.

Pensions
The Group participates in two principal schemes: the Kier Group Pension Scheme, which includes a defined benefit section, and a defined benefit scheme on behalf of its employees in Kier Sheffield LLP. The financial statements reflect the pension scheme deficits calculated in accordance with IAS 19.

Financial review

At 30 June 2012, the net deficit under the Kier Group Pension Scheme was £45m (2011: £23m).

The market value of the scheme's assets was £722m (2011: £680m) and the net present value of the liabilities was £781m (2011: £711m). The increase in the net deficit is a result of changes in the key assumptions. The decrease in discount rate to 4.7% (2011: 5.5%) increased the liabilities, while the changes in inflation and the return on the assets, combined with the ongoing contributions mitigated this to some extent.

We continue to progress with our recovery plan of additional annual deficit contributions of £8m and we make available our PFI investments where appropriate. In December 2011 we transferred our Hinchingbrooke investment for £3m to the Kier Group Pension Scheme. The Group is committed to continuing to support the funding position of the scheme.

At 30 June 2012, the scheme relating to Kier Sheffield LLP showed a net surplus position of £1m (2011: net surplus £1m). Note 8 to the financial statements includes a sensitivity analysis that highlights the impact of changes to the key assumptions to the Kier Group Pension Scheme and the Kier Sheffield LLP Pension Scheme. Net pension charges of £2.3m (2011: £4.8m) have been made to the income statement in accordance with IAS 19. The lower charge reflects the higher return on scheme assets.

Interest charge on net deficit (indicative only)

Using June 2012 pre-tax figures	2012 Current £m	2012 New £m	Change £m
Service cost	(12.7)	(12.7)	–
Expected return on scheme assets (June 2011: 7.0%)	57.7	–	*
Interest cost on scheme liabilities (June 2011: 5.5%)	(47.3)	–	*
Interest on net deficit (June 2011: 5.5%)	–	(1.6)	*
Total	**(2.3)**	**(14.3)**	**(12.0)**

* £10.4m net credit is represented as £1.6m charge.

IAS 19 re-presentation

The new pensions accounting will come into force for us for the June 2014 financial year, and will therefore require restatement of the 2013 figures, as comparatives. The expected return on scheme assets and the interest cost on scheme liabilities which are currently reported in the income statement will be replaced with an interest charge on the net deficit, as shown indicatively in the table to the left.

The difference of £12m, in this example, will be re-presented in the statement of comprehensive income. The quantum of the change relates to the difference between the expected return on assets and the discount rate. The greater this difference, the greater the impact of the change in 2014, and vice versa. It should be noted however, that this accounting change has no impact on cash and no impact on the pension deficit. It is simply a re-presentation of the pension figures.

Going concern

The directors' report states that appropriate enquiries have been made regarding the level of resources to continue in operational existence for the foreseeable future and the chief executive's review highlights the activities of the Group and those factors likely to affect its future development, performance and financial position.

The Group has considerable financial resources, committed banking facilities, long-term contracts and a strong order book, and for this reason the directors have continued to adopt the going concern basis in preparing the Group's financial statements.

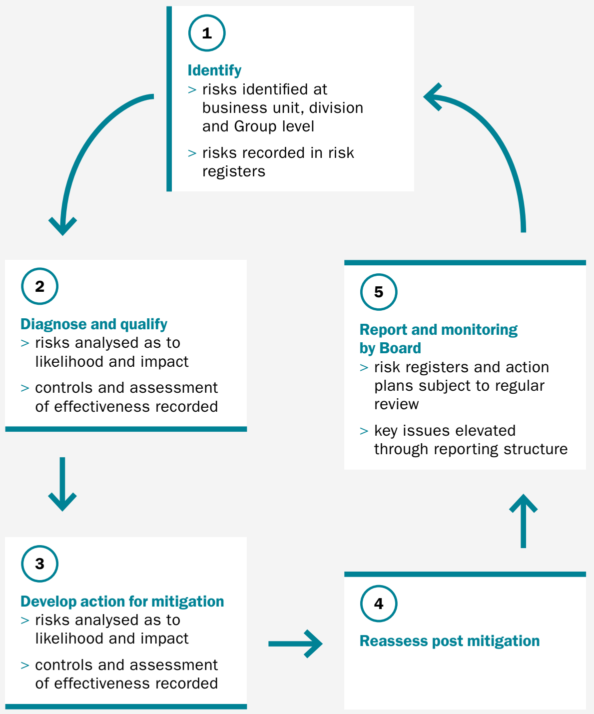
Haydn Mursell
Finance Director

Business risks

The key to the continued success of the Group's business strategy is its ability to identify and manage effectively the risks to its businesses and operations. The Group's approach is to identify the key risks and then assess the effectiveness of controls to mitigate the impact and likelihood of these risks occurring.

Our risk management process

The Group's risk management framework requires all divisions and operating businesses within them to identify and assess the key risks facing them which could impact on their ability to deliver their objectives. The Group, the divisions and the operating businesses maintain risk registers which are used to document the key risks facing the business, together with an assessment of the likelihood and impact of each risk occurring as well as an assessment of the effectiveness of the key controls in place to mitigate the risk. Action plans are developed and put in place to mitigate potential exposures. These risk registers are regularly reviewed to identify new risks as they arise and to monitor the action plans.



How the Group manages risk and assurance

The Board is responsible for the Group's system of risk management and internal controls and the Group risk management framework, which sets out the mechanism and reporting structure to ensure that key risks are continually monitored and any action plans to mitigate the risks are reviewed. In addition, a Group assurance map has been introduced in 2012 to coordinate the various assurance providers within the Group.

The Board has delegated to the Risk Management & Audit Committee the responsibility for reviewing the effectiveness of the Group's internal controls, including the systems established to identify, assess, manage and monitor risk and provide assurance. In addition to the ongoing monitoring of risk and controls, a report detailing the key risks, together with an assessment of the controls in place to mitigate these risks and any action plans, is prepared annually and reviewed by the Risk Management and Audit Committee. The last report was prepared in March 2012 and reviewed at the June 2012 committee meeting. The Board has concluded that the Group maintained sound risk management and internal control systems throughout the year ended 30 June 2012.

Other processes of assurance are managed through the Group's standing orders, the Executive Management Team, a range of Group policies and several central function committees (including the Group Corporate Responsibility Steering Committee and the Group Health, Safety and Environment Steering Committee, both being chaired by the chief executive and reporting regularly to the Board).

Principal risks

The nature of the industries and the business environment in which the Group 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, which have also helped the Group to respond to the changing business environment and the challenges presented during the year.

Business risks

Financial and legal risks

Risk description	Mitigation
Legal and regulatory The Group is subject to a number of complex, demanding and evolving legal and regulatory requirements. A breach of laws or regulations could lead to legal proceedings, investigations or disputes resulting in a disruption of business, ranging from additional costs incurred on a project to civil and/or criminal penalties as well as reputational damage.	The Group monitors and responds to legal and regulatory developments in the areas in which it operates. It is the Group's policy to require that all of its subsidiaries, employees, suppliers and subcontractors comply with applicable laws and regulations. Training is provided on relevant areas of law and regulation, including e-learning courses, to keep all parties fully aware of their responsibilities. Contracts entered into by the Group are subjected to a review process to ensure that contractual risks are identified and, wherever possible, mitigated appropriately.
Investment The Group recognises that there are risks associated with the investments which it may choose to make. This is particularly the case when the Group invests in new market sectors.	The Group adopts a selective approach to making investments (for example, PFI projects) and seeks to mitigate the associated risk. For example, it makes investments in sectors in which it has established construction and facilities management expertise. When investing in a new sector, the Group will conduct due diligence on the risks relating to the sector, using both internal and external resources and advice, and these risks and their mitigation will be considered as part of the Group's adjudication process.
Pensions In relation to its defined benefit scheme, the Group is exposed to funding risks arising from improvements in longevity, unfavourable economic conditions and investment performance. Where the actual outcomes are different to the actuary's assumptions, additional funding may be required to meet the cost of promised pension benefits.	Steps have been taken over time to reduce the volatility and extent of the Group's funding exposure, including closing the defined benefit scheme to new joiners in 2002, the introduction of an annual upper limit on salary increases which count for defined benefits purposes in 2009 and investment in a portfolio of inflation and interest swaps to mitigate the financial impact of adverse moves in prevailing rates. The trustees of the Kier Group Pension Scheme and the Group Board regularly review the effectiveness of these measures and consider further liability management opportunities.
Availability of finance and bonding facilities The Group's long-term business is dependent upon cash resources, facilities and the ability to provide performance and other bonds as necessary.	Cash forecasts and balances are prepared regularly so as to provide up-to-date and accurate information on the Group's cash position. Bank facilities are in place which have been recently renegotiated and extended. The Group has strong, long-term relationships with its bondsmen and has an in-house team which monitors headroom and advises on bond terms and conditions.
Macro-economic climate The order books for the Group's Construction and Services divisions are dependent upon the level of expenditure in the public sector and the availability of credit for private sector expenditure. Financial markets continue to be dominated by developments in the Eurozone area. In the UK, credit growth remains subdued with lending conditions facing individuals and companies continuing to tighten. In addition, the impact of the recent extension to the asset purchase programme remains uncertain, as do the effects of the introduction of the Funding for Lending Scheme and the 'UK Guarantees' scheme for infrastructure funding. Instability in global exchange rates could significantly escalate material and fuel prices, thereby putting pressure on some project cost forecasts.	The Group has created a structure to manage and mitigate risk with the following key components: > a wide geographic regional network of offices across the UK providing strong integration into local communities, its client base and supply chain; > a strong level of framework agreements and partnerships with government, local authorities and the private sector; and > a strong sector diversity allowing it to react to evolving opportunities in the marketplace. The Group also carries out monthly and quarterly reviews of its workload and forecasts its overhead levels as a percentage of future work in order to maintain a steady ratio of overhead costs to revenue. Fuel and other materials that are in high demand, such as steel, are hedged or forward-purchased when deemed necessary.

People and reputational risks

Risk description	Mitigation
People The Group is dependent on members of its senior management team and on a flexible, highly skilled and well-motivated workforce and believes its future success will depend, in part, on its ability to attract, develop and retain its people. If the Group does not succeed in attracting, developing and retaining skilled people it may not be able to grow the business as anticipated.	The Group monitors staff turnover closely and pay and conditions are reviewed regularly against the prevailing market and benchmarked to ensure that we remain competitive. Succession planning and staff development are key at all levels in the Group. The Group has recently implemented a revised performance review process which is designed to assist in the career development of its staff and also to identify potential successors to roles within the Group (including at senior management level).

Risk description	Mitigation
Health, safety and environmental The Group's activities require the continuous monitoring and management of health, safety and environmental risks. Failure to manage these risks could cause injury to its employees and subcontractors and could expose the Group to significant potential liability and reputational damage.	Detailed policies and procedures exist to minimise such risks and are subject to review and monitoring by the operating businesses and Group. All operating businesses have a director who is responsible for coordinating health and safety activities.
Reputation The Group's ability to tender for new business and its relationship with its range of customers, supply chain partners, its employees and other stakeholders depends in large part on the good reputation that it has established and how it is perceived by others.	In order to protect and enhance its reputation, the Group has a robust series of business ethics, sustainability and compliance policies that help deliver the Group's corporate responsibility programme, which addresses issues such as health and safety, environmental impact, climate change, employees, customers and supply chain and community engagement.

Operational risks

Risk description	Mitigation
Contract and build The Group carries out several hundred contracts annually and the risks to which the Group is exposed are dependent upon the nature of the work, the duration of the contract and the legal form of the contract.	The Group's appetite for very long-term, large, competitively tendered construction contracts is limited, driven by the desire to maintain quality of workload and manage risk. Tenders for contracts are subject to approval by the Board, the chief executive and the finance director or divisional directors, depending upon the value and nature of the contract. Contracts in progress are controlled and managed through the Group's operating structure and procedures, including rigorous and regular review of the forecast revenue and costs to complete.
Services The Services division enters into a large number of contracts each year, the risks associated with which depend, in particular, on the nature of the work being undertaken and the duration of the contract. Typically, the length of a contract will be greater than those entered into by the Construction division and, in addition to risks relating to contract performance, may contain risks in relation to the transfer of employees and other associated issues.	The Services division operates a contract review and tender adjudication process to ensure that risks are identified and, wherever possible, mitigated. The tender process is as described above under "Contract and build". Similarly, contracts in progress are controlled and managed as described above under "Contract and build".
Information technology The efficient operation of the Group is increasingly dependent upon the proper operation, performance and development of its IT systems. Failure to manage or integrate IT systems or failure to successfully implement changes in IT systems could result in a loss of control over critical business information and/or systems. This, in turn, could impact the Group's ability to fulfil its contractual obligations.	Group IT centrally manages the majority of systems across the Group. Other IT systems are managed locally by experienced IT personnel. Significant investments in IT systems are subject to Board review and approval. In addition, the Group has an Information Security Committee which focuses on data security.
Land and property development acquisition The cost and quality of property and land is fundamental to the profitability of the Group's property development and housing business.	Site evaluation is a key process and site appraisals are carried out in detail, including using external advice where appropriate. Land and development acquisitions are subject to approval by the Board, the chief executive and the finance director or divisional directors depending upon the value of the land. Developments in progress are controlled and managed through the Group's operating structure and procedures including rigorous and regular review of the forecast financials and sales activity. The Board allocates capital on a portfolio basis ensuring diversification and the efficient use of resources within the Group. In the case of the Property division, development risk is controlled by ensuring construction generally commences once the division has either pre-sold or pre-let key elements of the development.
Counterparty The Group depends, for its success, on the stability of its customers, joint venture partners, suppliers, subcontractors, funders, bondsmen and insurers. Failure in these counterparties could result in non-collection of amounts owed or disruption and delays to contract progress.	The Group assesses the financial strength of counterparties before entering into contract and structures payments so as to mitigate its financial exposure to them for the duration of our relationship. Where the Group is particularly dependent upon the continued financial strength of the providers of key financial services to the Group, it takes steps to spread this exposure across a range of counter-parties so as to diversify risk.
Business continuity The Group faces a number of risks which are, in large part, beyond its control. Its business and operations may be interrupted by natural disasters or any other disasters which may have the potential to affect adversely the Group's performance.	The Group has in place a number of business continuity plans at site and business unit level which are regularly reviewed and monitored to ensure their continued effectiveness. The purpose of these plans is to ensure that, wherever possible, the relevant project or business can continue to operate effectively after the occurrence of a disaster or an adverse event.

Board of Directors

1. Phil White CBE (63) ■ ▲
Non-executive chairman
Appointed non-executive chairman of the Group in November 2007 having joined as non-executive director in July 2006. He served as chief executive of National Express Group plc from January 1997 to September 2006. He is a chartered accountant and has extensive experience of both listed and private companies. He is currently chairman of Lookers plc and The Unite Group plc and a non-executive director of Stagecoach Group plc. He is chairman of the Nomination Committee and a member of the Remuneration Committee.

2. Paul Sheffield (51)
Chief Executive
Appointed chief executive in April 2010. He joined the Group as a graduate civil engineer in 1983 and has extensive experience of building and infrastructure projects both in the UK and overseas. He joined the Construction division Board in 2004 and the Board in October 2005 where he assumed responsibility for the Group's construction activities. He holds the position of director with overall responsibility for safety, health and environmental matters.

3. Haydn Mursell (41)
Finance Director
Joined Kier in August 2010 as Group finance director designate and took over the role of Group finance director in November 2010. He joined Kier from Balfour Beatty plc where he held the position of deputy group finance director. He is a member of the Institute of Chartered Accountants, having trained and qualified at KPMG in London. From 2001 until 2008, he held a number of senior finance roles at Lend Lease.

4. Steve Bowcott (57)
Executive Director
Appointed to the Board in July 2010 as director responsible for the Construction division. He has over 35 years' experience in both building and civil engineering with Kier, Mowlem and AMEC in both the UK and overseas. He re-joined Kier in January 2007 as a director of the Construction division responsible for the northern activities. In addition to his role as head of Construction he is a member of the CBI Committee in the north.

5. Ian Lawson (55)
Executive Director
After joining the industry in 1978, he gained 22 years of experience in both the UK and overseas across the building and infrastructure markets before rejoining the Group in November 2000 as managing director of the Group's private finance investment business. In October 2005 he was appointed to the Board. He has responsibility for the Services and Property divisions.

6. Richard Bailey (61) ● ■ ▲
Non-executive
Appointed to the Board in October 2010. He is a chartered accountant and a partner in Rothschild, the leading global financial advisory business. He is currently executive chairman of Rothschild's mid-cap business, having worked for the bank for 29 years. He has been involved in a range of private and public company work with a focus on mergers, acquisitions, private equity and capital raising. He is chairman of the Risk Management and Audit Committee and member of the Nomination and Remuneration Committees.

7. Chris Geoghegan (58) ● ■ ▲
Non-executive
Appointed to the Board in July 2007. He joined the board of BAE Systems plc in July 2002 as chief operating officer with responsibility for all European joint ventures and UK defence electronics assets. He is non-executive chairman of e2v technologies plc, a non-executive director of Volex plc and SIG plc, a Fellow of the Royal Aeronautical Society and a past president of the Society of British Aerospace Companies. He is the senior independent non-executive director, chairman of the Remuneration Committee and a member of the Risk Management and Audit and Nomination Committees.

8. Amanda Mellor (48) ● ■ ▲
Non-executive
Appointed to the Board in December 2011. She is currently the group secretary and head of corporate governance of Marks and Spencer Group plc, having previously been head of investor relations at Marks and Spencer and director of corporate relations at Arcadia Group plc. She spent her early career in investment banking at James Capel and Robert Fleming. She was accredited as a legal mediator in 2002. She is a member of the Risk Management and Audit, Nomination and Remuneration Committees.

9. Nick Winser (52) ● ■ ▲
Non-executive
Appointed to the Board in March 2009. He joined the board of National Grid in April 2003 and is responsible for the company's business in the UK. He was previously chief operating officer of US transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming director of engineering in 2001. He is co-chair of the Energy Research Partnership and chairman of the IET's Power Academy. He is a member of the Risk Management and Audit, Nomination and Remuneration Committees.

10. Hugh Raven (40)
Company Secretary
Joined the Group in April 2010 from Eversheds' London corporate/commercial department. He brings significant experience of corporate transactions and regulatory issues, having worked for top city firms during his career with considerable exposure to the construction sector. He is responsible for corporate governance within the Group and, as general counsel, oversees the Group's legal affairs.

Risk Management and Audit Committee	●
Nomination Committee	■
Remuneration Committee	▲

Directors' report

Introduction

The directors present their annual report and audited financial statements as at, and for the year ended, 30 June 2012.

This directors' report should be read in conjunction with the chairman's statement, the chief executive's review, the corporate governance statement and the directors' remuneration report, each of which is incorporated by reference in (and shall be deemed to form part of) this directors' report to the extent required by applicable law or regulation.

Principal activities

The Group's principal activities during the course of the year were construction, services and property.

A review of the Group's business and progress during the year is included within the chairman's statement on pages 6 and 7, the chief executive's review on pages 8 to 15 and the operating review on pages 24 to 38.

Results and dividends

The Group's profit for the year after taxation and exceptional items was £55.3m (2011: £62.3m). An interim dividend of 21.5p per share (2011: 20p), amounting to £8.2m (2011: £7.5m), was paid on 11 May 2012. The directors propose a final dividend of 44.5p per share (2011: 44.0p per share), amounting to £17.4m (2011: £16.6m), payable on 28 November 2012 to shareholders on the register of members at the close of business on 21 September 2012.

Directors

Biographical details of the directors of the Company are shown on pages 54 and 55. Details of directors' interests, including interests in the Company's shares, are disclosed in the directors' remuneration report on pages 64 to 71.

Qualifying third party indemnities

The articles of association of the Company (the Articles) entitle the directors of the Company, to the extent permitted by the Companies Act 2006 and other applicable legislation (together, the Companies Acts), 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, and in common with many other companies, the Company has insurance in favour of its directors and officers in respect of certain losses or liabilities to which they may be exposed due to their office.

The UK Corporate Governance Code

A statement on the Group's corporate governance is set out on pages 59 to 63.

Going concern

The Group has considerable financial resources, together with long-term contracts with a number of customers and suppliers across its business activities. As a consequence, the directors believe that the Group is well-placed to manage its business risks effectively.

After making appropriate enquiries, the directors of the Company have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

Further information relating to the financial position of the Group, its cash flows, liquidity position and borrowing facilities is given in the financial review on pages 45 to 50.

Charitable and political donations

During the year, the Group's donations to charity in the United Kingdom were £122,000 (2011: £64,000), principally to local charities serving the communities in which it operates. The Group has considerable involvement in such communities, as described in the corporate responsibility report on pages 39 to 44. No political donations were made during the year (2011: nil).

Financial instruments

Details of the financial risk management objectives and policies of the Group, together with its exposure to material financial risks, are set out in notes 1 and 27 to the consolidated financial statements.

Research and development

The Group undertakes research and development activity in creating innovative construction techniques and design integral to the delivery of its projects. The direct expenditure incurred is not separately identifiable, as the investment is usually contained within the relevant project.

Employees

The companies in the Group are equal opportunities employers. The Group gives consideration to applications for employment made by disabled persons (having regard to their particular aptitudes and abilities) and encourages and assists, whenever practicable, the recruitment, training, career development and promotion of disabled people and the retention of, and appropriate training for, those who become disabled during the course of their employment and who can be employed in a safe working environment. The Group's approach to employee involvement, equal opportunities, health and safety and the environment is set out in the corporate responsibility report on pages 39 to 44.

The Group provides relevant information on matters of concern to employees through newsletters, video addresses, the Group's intranet, social media and formal and informal meetings with various groups of employees and management. These arrangements also aim at achieving a common awareness on the part of employees of matters affecting the performance of the Group. The Group also consults with employees so as to ascertain their views in relation to decisions which are likely to affect their interests.

The Group operates the Kier Group plc 2006 Sharesave Scheme (the Sharesave Scheme), which was approved by shareholders on 25 November 2006, for eligible employees and makes available a dealing service to enable employees to buy and sell its shares with a minimum of formality. The Group also operates an all employee share ownership plan (the AESOP) for all employees, which includes a share-matching element.

Policy and practice on payment of creditors

The Group agrees payments with its suppliers and subcontractors on an individual contract basis rather than following a code or standard on payment practice. The Group's policy is to abide by these agreed terms whenever the relevant Group company is satisfied that the suppliers or subcontractors have provided the goods or services in accordance with the contract terms and conditions. The aggregate amount owed to trade creditors by the Company at 30 June 2012 was nil (2011: nil).

Subsidiary trading companies within the Group, acting in accordance with the above policy, exhibit creditor days averaging 26 days (2011: 30) in respect of suppliers of invoiced goods and services and 19 days (2011: 16) in respect of certified amounts due to subcontractors. These figures exclude amounts not currently due for payment but which are included within trade creditors.

Share capital

As at 30 June 2012, the issued share capital of the Company comprised a single class of ordinary shares of 1 pence each. As at 30 June 2012, 38,823,184 shares in the capital of the Company were in issue. During the year, 626,037 shares were issued in relation to the scrip dividend alternative and 37,122 shares were issued in connection with the Sharesave Scheme. No other shares were issued during the year. Details of the Company's share capital are set out in note 24 to the consolidated financial statements.

Subject to the provisions of the Articles and the Companies Acts, shares may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, if the Company has not so determined, as the directors may decide.

Restrictions on transfer of securities in the Company

There are no restrictions on the transfer of securities in the Company, except:

> that certain restrictions may from time to time be imposed by law or regulation (for example, insider trading laws); and

> pursuant to the Listing Rules of the Financial Services Authority (the Listing Rules), whereby certain employees require approval to deal in the Company's shares.

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities in the Company.

Substantial voting rights

As at 12 September 2012, the Company had been notified of the following interests in the ordinary share capital of the Company, pursuant to Rule 5.1 of the Disclosure and Transparency Rules:

Standard Life Investments Limited	**8.9%**
Schroders plc	**7.2%**
Norges Bank	**3.8%**
Legal and General Group Plc	**3.1%**

Securities carrying special rights

No person holds securities in the Company carrying special rights with regard to control of the Company.

Rights under employees' share schemes

As at 30 June 2012, The Royal Bank of Canada (RBC), as trustee of the Kier Group 1999 Employee Benefit Trust (the Trust), held 612,489 shares (approximately 1.6% of the issued share capital of the Company) on trust for the benefit of the directors and certain senior managers of the Group. The Trust was established for the purposes of the Kier Group 1999 Long-Term Incentive Plan (the 1999 LTIP) and the Kier Group 2010 Long-Term Incentive Plan (the 2010 LTIP), which were approved by shareholders on 27 November 1999 and 12 November 2010 respectively. RBC waives the dividends payable in respect of 598,837 shares but received the dividend in respect of 13,652 shares (being the shares to which certain directors and senior managers are beneficially entitled as a result of the 2011 annual bonus being satisfied in part by an allocation of shares). RBC, in turn, transferred the dividend to the relevant senior managers.

As at the same date, Computershare Investor Services PLC held 972,293 shares (approximately 2.5% of the issued share capital of the Company as at 30 June 2012) on trust for the benefit of staff and former staff who are members of the AESOP.

Voting

Subject to any terms upon which the relevant shares may have been issued or are subject and to the Articles, every member present in person or by proxy at a general meeting and entitled to vote has, upon a show of hands, one vote and, upon a poll, one vote for every share held. In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

Restrictions on voting rights

No member shall, unless the Board otherwise determines, be entitled to vote at any general meeting in respect of any share held by it unless all calls or other sums then payable by it in respect of that share have been paid or if that member has been served with a disenfranchisement notice (as defined in the Articles) after failure to provide the Company with information concerning interests in that share required to be provided under the Companies Acts.

The Company is not aware of any agreements between holders of securities that may result in restrictions on voting rights.

Appointment and replacement of directors

The directors shall be not less than three and not more than 12 in number. The Company may by ordinary resolution vary the minimum and/or maximum number of directors.

Directors may be appointed by the Company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next annual general meeting of the Company after his/her appointment and is then eligible to stand for election.

Pursuant to the Articles, at every annual general meeting of the Company, one-third of the directors who are subject to the requirement to retire by rotation (which shall not include any director who was appointed by the Board and is standing for election) shall retire from office and may offer themselves for re-election by the members. The directors to retire by rotation shall be those who have been longest in office since their last election. The Company may by ordinary resolution of which special notice has been given remove any director before the expiry of the director's period of office. The office of a director shall be vacated if: (i) the director becomes bankrupt or the subject of an interim receiving order or makes any arrangement or composition with his creditors generally or applies to the court for an interim order in connection with a voluntary arrangement under the Insolvency Act 1986; (ii) the director is certified as having become physically or mentally incapable of acting as a director and may remain so for more than three months; (iii) the director ceases to be a director by virtue of the Companies Acts or becomes prohibited by law from being a director; (iv) the director receives written notice from not less than three-quarters of the other directors removing the director from office; or (v) in the case of a director who holds executive office, the director ceases to hold such office and the majority of the other directors resolve that the relevant director's office be vacated.

However, at the forthcoming annual general meeting of the Company, notwithstanding the provisions of the Articles, all the directors will offer themselves for re-election in accordance with the UK Corporate Governance Code.

Directors' report
continued

Amanda Mellor, having been appointed as a director since the 2011 annual general meeting, will be subject to election at this year's meeting.

Amendment of Articles
The Articles may be amended by a special resolution of the Company's shareholders.

Powers of the directors
Subject to the Articles, the Companies Acts and any directions given by the Company by special resolution, the business of the Company will be managed by the Board, which may exercise all the powers of the Company.

Powers in relation to the Company issuing its shares
The directors were granted authority at the annual general meeting on 16 November 2011 to allot shares in the Company up to an aggregate nominal amount of £127,226, together with shares with an aggregate nominal amount of £254,452 in connection with a rights issue. This authority will expire on the date of this year's annual general meeting and a resolution to renew the authority will be proposed at the forthcoming annual general meeting. A special resolution will also be proposed to renew the directors' power to make non-pre-emptive issues of shares for cash.

Powers in relation to the Company buying back its shares
The Company may only buy back shares if the Articles do not prohibit it from doing so and it has received the requisite authority from shareholders in general meeting. Although the Articles do not contain any such prohibition, the Company did not request any such authority at its last annual general meeting and does not propose to do so at the forthcoming annual general meeting.

Change of control
The Company has entered into certain agreements that may take effect, alter or terminate upon a change of control of the Company following a takeover bid. The significant agreements in this respect are the Company's £120m revolving credit facility agreement dated 31 May 2012 entered into with HSBC Bank plc, Lloyds TSB Bank plc, The Royal Bank of Scotland plc and Santander UK plc (the Credit Facility Agreement) and certain of the Group's employee share schemes.

The Credit Facility Agreement includes a provision such that, in the event of a change of control of the Company, the lenders may cancel all or any part of the relevant facility and/or declare that all amounts outstanding under the facility are immediately due and payable by the Company.

Outstanding options granted under the Sharesave Scheme may be exercised within a period of six months from a change of control of the Company following a takeover bid taking place (or will lapse upon the expiry of such a period).

Awards granted under the 1999 LTIP or the 2010 LTIP may vest on a change of control of the Company following a takeover bid and the maximum number of shares in the Company to be awarded upon such vesting may become immediately due.

There are no agreements between the Company and its directors providing for compensation for loss of office that occurs as a result of a takeover bid.

Auditor
In accordance with section 489 of the Companies Act 2006, a resolution for the reappointment of the Group's auditor, KPMG Audit Plc, will be proposed at the forthcoming annual general meeting.

Each director who holds office at the date of approval of this directors' report confirms that, so far as each such director is aware, there is no relevant audit information of which the auditor is unaware; and the directors have taken all the steps that they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information.

Annual general meeting
The annual general meeting of the Company will be held at The Honourable Artillery Company, Armoury House, City Road, London EC1Y 2BQ at 12 noon on 15 November 2012.

This report was approved by the Board on 12 September 2012 and signed on its behalf by:

Hugh Raven
Company Secretary

Tempsford Hall
Sandy
Bedfordshire
SG19 2BD

The UK Corporate Governance Code

The Board recognises the importance of high standards of corporate governance and is committed to managing the Group's operations in accordance with the principles set out in The UK Corporate Governance Code (the Code). The Company has complied with the Main Principles of the Code throughout the year. The Company has also complied with the Code Provisions set out in the Code throughout the year, except as explained below.

With effect from the appointment of Amanda Mellor to the Board on 1 December 2011, the Board has comprised four executive directors and four independent non-executive directors, together with the chairman. The Board believes that its current structure is satisfactorily balanced, with the independent non-executive directors having a substantial presence in Board debate, constructively challenging the executive directors and assisting in the development of strategy.

Matters considered by the Board during the year included:

> the Group's strategy, budgets, structure and financing requirements;

> the Group's annual and interim financial statements (taking into account the views of the Risk Management and Audit Committee);

> the Group's interim management statements;

> the implications of prevailing economic conditions and the appropriate strategy relating to them;

> the Group's pension schemes;

> potential acquisitions and disposals;

> strategic issues relevant to the Group's business;

> material operational issues and opportunities;

> health and safety issues;

> material human resources issues affecting the Group, including succession planning and diversity both at Board level and throughout the Group; and

> the Group's strategy with respect to disputes or proceedings (including the issues relating to the Castlepoint Shopping Centre car park, Bournemouth).

Board of directors

The Board is responsible to shareholders for the success of the Company. The Board develops the Group's strategy, monitors and reviews its business performance and controls risk. The Board has put in place reporting processes and other controls which are designed to ensure that it is provided with relevant information on a timely basis, which set authorisation limits and which reserve certain significant matters for the Board or its committees.

The Group's chairman, who leads the Board, is Phil White. The chairman is responsible for the Board's effectiveness and sets its agenda, ensuring that the directors receive accurate, timely and clear information. The chairman also facilitates the effective contribution of the non-executive directors and ensures a positive and constructive relationship between the executive and non-executive directors. The chairman is responsible for effective communication with shareholders and for ensuring that the directors continually update their skills and knowledge, and familiarity with the Group, in order to fulfil their roles. Phil White's other significant commitments are his roles as chairman of The Unite Group plc and Lookers plc and as a non-executive director of Stagecoach Group plc.

The Group's chief executive is Paul Sheffield, who is responsible for the operational management of the Group and is accountable to the Board for the implementation of the Group's strategy. The chief executive meets regularly with a management committee comprising the other executive directors (focusing on a variety of matters, including strategy, material issues facing the Group and succession planning) and also chairs regular meetings with the management of each of the divisions. The chief executive also meets regularly with the Group's company secretary, human resources director and health and safety director.

The senior independent non-executive director is Chris Geoghegan. The senior independent non-executive director is available to shareholders if they have concerns which contact through the normal channels of the chairman, the chief executive or the other executive directors has failed to resolve or for which such contact is inappropriate. In addition, the senior independent non-executive director is responsible for the appraisal of the chairman's performance.

The Board considers Richard Bailey, Chris Geoghegan, Amanda Mellor and Nick Winser to be independent directors. The chairman of the Board, Phil White, was also considered to be independent on his appointment.

A table of attendance of directors at meetings of the Board and its committees is set out on page 62. Outside the formal schedule of meetings, the non-executive directors met without the executive directors during the year.

All directors have access to the advice and services of the company secretary and the directors are also able to seek independent professional advice, if necessary, at the Company's expense. Training is available for new directors and subsequently as is considered necessary. All directors are subject to election by shareholders at the first annual general meeting following their appointment. Under the Articles, each director is subject to re-election thereafter at intervals of no more than three years. However, at the forthcoming annual general meeting of the Company, notwithstanding the provisions of the Articles, all of the directors will offer themselves for re-election in accordance with the Code. Amanda Mellor, having been appointed as a director since the 2011 annual general meeting, will be subject to election at this year's meeting. Executive directors are required to seek approval from the Board before accepting any external non-executive positions, although no such positions are currently held.

The executive directors' service agreements and the non-executive directors' letters of appointment are available for inspection at the Company's registered office and will be on display prior to and at the forthcoming annual general meeting.

Board performance evaluation

During the year, Independent Board Evaluation (IBE) completed its facilitation of the evaluation of the performance of the Board, its committees and the individual directors which had begun in the financial year ended 30 June 2011.

Corporate governance statement

continued

The aim of the evaluation process was to obtain open and constructive feedback that would:

- provide an insight into the Board's, its committees' and each individual director's effectiveness;
- assist to develop an action plan to ensure that the Board operates as effectively as possible; and
- establish a benchmark for measuring future progress.

The evaluation process comprised IBE observing the performance of the Board and the individual directors at meetings of the Board and its committees, together with individual meetings with each of the directors to discuss their views and solicit their opinions, and meetings with senior management below Board level to ascertain their views on the effectiveness of the Board and the directors.

Subjects covered by the review included the directors' views on the Board's culture, its composition and succession planning and shareholder engagement. Views were also sought on the Board's development of the Group's strategy, governance and compliance and risk management.

IBE produced reports with respect to the performance of the Board, the chairman, the committees and the individual directors. The report relating to the Board was discussed at the Board meeting which took place in October 2011. Subsequent to this meeting, reports relating to the Board committees were discussed with the chairmen of these committees, the chairman of the Board provided feedback to each individual director, and the senior independent non-executive director gave feedback to the chairman of the Board on the chairman's performance.

The key points raised in the feedback included:

- the directors believed that, on the whole, the Board operated effectively, with meetings generally including constructive and challenging debate;
- that there had been a number of recent changes to the Board and, in the immediate future, it would be important to continue to manage this change effectively;
- the Board was of the view that it had a good relationship with shareholders; and
- that those members of senior management who had been invited to attend or present at Board meetings valued the experience, particularly as this provided an opportunity to develop relationships with the non-executive directors.

The evaluation process also resulted in a number of actions for the Board, including:

- the need to ensure an appropriately diverse Board, whether in terms of experience, gender or otherwise. So as to continue to broaden the range of skills and expertise on the Board, Amanda Mellor, the Group Secretary and Head of Corporate Governance of Marks and Spencer Group plc, joined the Board with effect from 1 December 2011 and, since her appointment, Amanda has made a significant contribution to the Board and its committees;
- identifying opportunities to hold Board meetings in the Group's offices and sites around the country so as to provide opportunities to meet senior members of staff. During the year, Board meetings were held on the sites of a number of the Group's projects in London and at the Group's offices in Birmingham and London. During the financial year ending 30 June 2013, Board meetings are scheduled to take place at the Group's offices or sites in Stoke and Bristol;
- inductions for new Board members need to be tailored to the individual's specific requirements. A thorough and rigorous induction programme was agreed with Amanda Mellor upon her appointment to the Board, which included a number of site visits, meetings with members of senior management within the business and discussions with other relevant individuals, including the company secretary, the human resources director and the chief information officer;
- feedback from the committees of the Board needed to be regular and informative. The chairmen of Board's committees now report back to the Board following the relevant committee meeting; and
- the Board should receive appropriate training to enable it to discharge its duties. By way of example, at the December 2011 Board meeting, the Board received in-depth training on certain key accounting issues.

In addition, throughout the year, the chairman of the Board held regular discussions with members of the Board and the company secretary to assess the performance of the Board, its committees and the individual directors. Actions arising from these discussions were implemented throughout the year.

Risk Management and Audit Committee

Members of the Risk Management and Audit Committee

- Richard Bailey (chair)
- Chris Geoghegan
- Amanda Mellor
- Nick Winser

The Risk Management and Audit Committee comprises the non-executive directors. Richard Bailey, a chartered accountant with recent and relevant financial experience, is the chairman of the committee. The secretary of the committee is Hugh Raven.

The committee met three times during the year. These meetings were also attended by the Group finance director and the director responsible for internal audit. The KPMG audit engagement partner attended all of the meetings and met the chairman of the committee without management being present. The chairman of the Board is invited to attend the committee meetings and the executive directors attend when it is considered necessary or appropriate for them to do so.

The committee has clearly defined terms of reference which outline its objectives and responsibilities relating to financial reporting, internal controls, risk management and the application of appropriate accounting policies and procedures.

The committee is responsible for overseeing the Group's internal audit function. The director responsible for internal audit reports to the chairman of the committee.

During the course of the year, an external review was carried out on the effectiveness of the internal audit function in the light of the current and future needs of the Group's business. Following the review, an action plan was developed to ensure best practice was adopted and, as part of this plan, PwC have been engaged as an outsourced internal audit and assurance provider to deliver specific expertise, experience and resource.

The committee is also responsible for monitoring and reviewing the performance, independence and objectivity of KPMG, the external auditor.

The provision of non-audit services by KPMG over a pre-determined cost threshold, other than tax compliance and routine taxation advice, must be referred to and agreed by the committee and any work costed below that threshold must be pre-approved by the Group finance director. These controls enable the committee to be satisfied that KPMG's objectivity and independence as auditor has not been impaired, notwithstanding the provision of non-audit services in the year.

The fees paid to KPMG during the year in respect of non-audit services were £85,500 (2011: £265,000), of which £13,500 related to KPMG providing certain software licences, £50,000 to the auditing of the Corporate Responsibility Annual Report, £12,000 to pensions advice and the remaining £10,000 to advising in connection with a project tender process. The total fees for non-audit services represented approximately 11% of the audit fees paid for the year (2011: 36%).

Matters considered by the Risk Management and Audit Committee during the year included:

- reviewing and recommending for approval by the Board the annual and interim financial statements;
- agreeing the scope and reviewing the results of the external audit;
- reviewing the effectiveness of the Group's internal controls and risk management processes;
- approving the internal audit plan;
- reviewing progress against the internal audit plan and the key findings of the audits;
- monitoring the effectiveness of the internal audit function; and
- agreeing the scope of KPMG's audit, the level of remuneration paid to KPMG and the extent of KPMG's non-audit services.

The committee's terms of reference are available on the Company's website and on request from the company secretary.

Remuneration Committee

Members of the Remuneration Committee

- Chris Geoghegan (chair)
- Richard Bailey
- Amanda Mellor
- Phil White
- Nick Winser

The Remuneration Committee comprises the non-executive directors. Chris Geoghegan is the chairman of the committee. The secretary of the committee is Hugh Raven.

The committee met five times during the year. The meetings were also attended by the chief executive, the finance director and the Group's human resources director when it was considered appropriate for them to do so.

The committee makes recommendations to the Board on the Company's framework of executive remuneration and determines, on its behalf, specific remuneration packages for each of the executive directors. In doing so, it takes the advice of independent external consultants. Further information relating to the committee and its workings is contained in the directors' remuneration report on pages 64 to 71.

Matters considered by the Remuneration Committee during the year included:

- approving the 2011 directors' remuneration report;
- approving the bonuses paid to the executive directors in respect of the 2011 financial year;
- reviewing the executive directors' basic salaries and benefits and recommending increases to be effective from 1 July 2012;
- setting the bonus targets applicable to the executive directors in respect of the 2013 financial year;
- setting the performance measures relating to, and the quantum of, awards under the 2010 LTIP to be made to the executive directors during the 2013 financial year;
- considering external market developments in executive remuneration and their effect on the Company's existing arrangements; and
- participating in the executive remuneration consultation process run by the Department of Business, Innovation and Skills (BIS).

The committee's terms of reference are available on the Company's website and on request from the company secretary.

Nomination Committee

Members of the Nomination Committee

- Phil White (chair)
- Richard Bailey
- Chris Geoghegan
- Amanda Mellor
- Nick Winser

The Nomination Committee comprises the Group's non-executive directors. Phil White is the chairman of the committee. The secretary of the committee is Hugh Raven.

The committee met twice during the year.

The committee is responsible for monitoring the composition and balance of the Board, making recommendations to the Board on new Board appointments and succession planning.

Matters considered by the Nomination Committee during the year included:

- the appointment of Amanda Mellor to the Board;
- succession planning in relation to both the Board and the senior management team;
- the diversity and skills required by the Board to support the future development of the business; and
- the performance of the Executive Management Team.

Prior to appointing Amanda Mellor as a non-executive director, the committee reviewed the composition and existing skills of the Board and discussed its diversity, in particular in terms of background, experiences and gender, in light of the Group's current and future needs. The committee did not, however, believe that either an external search consultant or open advertising was required in the circumstances.

The committee's terms of reference are available on the Company's website and on request from the company secretary.

Corporate governance statement
continued

Board and committee meetings

Details of the number of meetings of the full Board and its committees during the year are set out in the adjacent table. The table also sets out the number of Board meetings attended by each director and the number of committee meetings attended by each director as a member of the relevant committee during the year.

The executive directors are not members of the Board committees but are invited to attend meetings of these committees when it is considered necessary or appropriate for them to do so. For example, Paul Sheffield and Haydn Mursell attended the Risk Management and Audit Committee meetings in their respective capacities as chief executive and finance director.

Phil White is not a member of the Risk Management and Audit Committee but, as chairman of the Board, attended the committee's meetings during the year.

	Board (12)	Risk Management and Audit (3)	Remuneration (5)	Nomination (2)
Richard Bailey	12	3	5	2
Steve Bowcott	12	–	–	–
Chris Geoghegan	12	3	5	2
Ian Lawson	12	–	–	–
Amanda Mellor[1]	6	2	1	1
Haydn Mursell	12	–	–	–
Paul Sheffield	12	–	–	–
Phil White	12	–	5	2
Nick Winser	12	3	5	2

1 Amanda Mellor was appointed to the Board with effect from 1 December 2011 and attended all the Board committee meetings since that date, except for the Board and Remuneration Committee meetings held on 14 March 2012 due to business commitments with Marks and Spencer Group plc which had been scheduled prior to her becoming a member of the Board. Amanda reviewed the papers circulated in advance of these meetings and provided her comments to the chairmen.

Risk management and internal controls

The Code requires that the directors review the effectiveness of the Group's risk management and internal control systems and that this review covers all material controls, including financial, operational and compliance controls. The directors are satisfied that procedures are in place to ensure that the Group complies with the Turnbull Committee guidance published by the Institute of Chartered Accountants in England and Wales and that the procedures have been applied during the year.

The Board has overall responsibility for the Group's systems of risk management and internal control and for reviewing their effectiveness. The Board considers that the Group's systems and controls, which have been developed and refined over many years, are appropriately designed to ensure that the Group's exposure to significant risks is properly managed. However, such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement. In reviewing the effectiveness of internal controls, the directors have considered the key risks and exposures within the Group. The Group has entered into a number of joint ventures, which are not controlled by a member of the Group. These joint ventures are not included for the purposes of the assessment of the Group's internal controls.

The key features of the Group's systems of risk management and internal controls include:

- an established management structure operates throughout the Group, with clearly defined levels of responsibility and delegation of authority;
- clearly defined operating guidelines and procedures with authorisation limits set at appropriate levels;
- a comprehensive budgeting and forecasting process, which is regularly reviewed and updated;
- a formal quarterly review of each division's year-end forecast, business performance, risk and internal control matters which is carried out by the directors of each division with the chief executive and finance director in attendance;
- monthly management reporting, including regular comparison of actual results against latest forecasts;
- established policies and procedures governing the Group's investment in land, property and other significant assets, including acquisitions and disposals. These include detailed appraisals, appropriate authorisation levels and Board approval depending on value or perceived exposure;
- investment decisions and tenders for contracts being subject to approval by the Board, the chief executive and the finance director or divisional directors, depending on the value and nature of the investment or contract;
- internal audits to assess the adequacy and effectiveness of internal controls. The scope of the internal audit work covers the key risks faced by the business and is supplemented by cyclical reviews of the core financial process. Internal audit findings are reported to the Risk Management and Audit Committee and the executive directors on a regular basis;
- risk registers for each business unit highlighting key risks facing that business, together with an assessment of the effectiveness of controls to mitigate those risks;
- an assurance-mapping process to ensure the coordination of risk assurance within the Group;
- a process of risk and control self-assessment requiring all operating companies to review and confirm that appropriate internal controls are in place and operating effectively across the key risk areas. The findings of the assessment are reviewed by the Risk Management and Audit Committee;
- reviewing and reporting of safety, health and environmental matters; and
- the provision of a confidential method of reporting any suspected fraud or similar matter to the director responsible for internal audit, the company secretary or the Group's human resources director, as appropriate.

The Board receives regular reports from all operating units to monitor their performance and all business unit management teams are briefed on relevant issues arising at Board meetings.

During the course of a year, members of the Board visit a number of the Group's significant business units and the Board also monitors the control framework of each business. The Risk Management and Audit Committee reviews the appropriateness and effectiveness of the Group's internal controls and did not consider that any significant internal control failings or weaknesses were identified by the review conducted during the course of the year.

Relations with shareholders

The Company has a programme of regular communication and meetings with investors, investment analysts and brokers. This includes detailed presentations to investors, analysts and the media when the Company announces its annual and interim results, together with additional engagement following the release of its interim management statements. This programme assists the Board to understand the views of major shareholders about the Group, its performance and its strategic objectives. Independent feedback is also provided to the Board by analysts and institutional shareholders.

The Board uses the annual general meeting to communicate directly with shareholders and encourages their attendance at this event where the chairmen of the Board's committees are present to answer questions. The chairman of the Board also meets regularly with individual shareholders to obtain their views on a variety of matters, as does the chairman of the Remuneration Committee in relation to remuneration matters.

The Board invites investors, brokers and analysts to visit the Group's projects so as to demonstrate the scope and scale of its activities. These site visits also include a series of presentations by members of the Board and members of senior management about the Group's operations. During the year, a visit was made to the Crossrail tunnelling project based near Paddington, London.

The Group also regularly engages with shareholders in relation to its corporate responsibility (CR) programme. During the year, it also engaged with a number of shareholders in relation to environmental, social and governance (ESG) issues arising from the FTSE4Good ESG ratings. The Group has engaged with the ESG or responsible investment executives of a number of major institutional investors to seek their feedback on its CR reporting. As part of this process, the Group engaged KPMG to provide independent assurance for its 2012 CR Annual Report and is now reporting against the Global Reporting Initiative (GRI) standard C+.

The Group's website plays a significant role in its communication with investors, customers, its supply chain, the media and the general public. In addition, the Group also communicates via a range of social media tools, including Twitter and YouTube.

Directors' remuneration report

Introduction
This report has been prepared by the Remuneration Committee (the Committee) on behalf of the Board. This report complies with the Companies Act 2006, Schedule 8 of the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 and the Listing Rules.

The Remuneration Committee
The Committee comprises the non-executive directors. The secretary of the Committee is Hugh Raven.

The Committee met five times during the year. Further details of the Committee, including its members, are set out on page 61.

The key responsibilities of the Committee include:

> making recommendations to the Board on its executive remuneration policy;

> determining specific remuneration packages for each of the executive directors on behalf of the Board; and

> monitoring the remuneration packages of other senior members of management within the Group.

In undertaking these responsibilities, the Committee seeks independent external advice, as is considered necessary. During the year, the Committee was advised by its independent remuneration advisers, Kepler Associates (Kepler). Kepler provides no other advice, or services, to the Company. Kepler complies with the Code of Conduct for Remuneration Consultants which has been developed by the Remuneration Consultants Group.

The Committee also seeks internal support and advice from the company secretary and the Group's human resources director. The Committee consults the chief executive concerning its proposals. No individual participates in any discussion regarding his or her own remuneration.

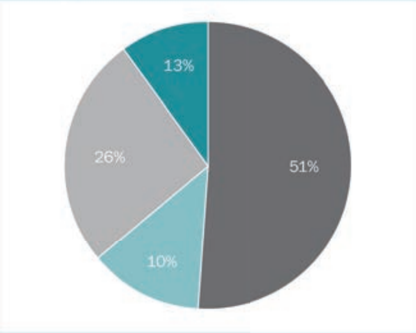
Remuneration policy
The Committee's key objective is to ensure executive pay is aligned with shareholders' interests, taking into account the need to:

> attract, retain and motivate talent, but at a reasonable cost to the Group;

> maintain an appropriate balance between fixed elements of remuneration (basic salary, benefits in kind and pension) and performance-related elements of remuneration (annual bonus and long-term incentives). Further details of the mix of remuneration for the Group's chief executive (excluding any share price growth) are shown in the charts below; and

> place an increasing emphasis on rewarding executives by reference to the Group's long-term performance by incentivising sustainable profit growth and the creation of long-term value.

'On target' performance[1]

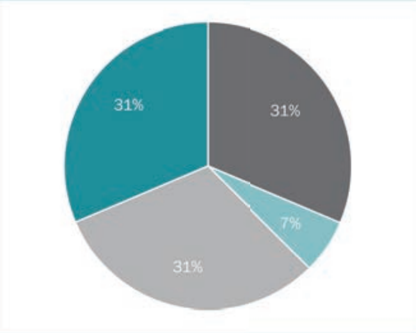


Variable pay
Annual bonus
Long-term incentives

Fixed pay
Salary
Pension supplement

[1] Assumes, in addition to basic salary and a pension supplement of 20% of salary which is no longer pensionable, a bonus payment of 50% of basic salary and 25% vesting of a 2010 LTIP award.

'Maximum' performance[2]



Variable pay
Annual bonus
Long-term incentives

Fixed pay
Salary
Pension supplement

[2] Assumes, in addition to basic salary and a pension supplement of 20% of salary which is no longer pensionable, a bonus payment of 100% of basic salary and 100% vesting of a 2010 LTIP award.

The Committee reviews the executive directors' remuneration on an annual basis. At each review, the Committee considers an individual's experience and performance in their role over the year against a number of key performance indicators relating to both individual and corporate measures of performance. The individual's experience and performance are then considered against the market positioning of pay for the role, based on an analysis of external reference points provided by the Group's independent remuneration advisers.

The Committee also takes into account pay and employment conditions across senior management within the Group when determining the executive directors' remuneration.

The executive directors' remuneration consists of a basic salary, an annual bonus, awards under long-term incentive plans, pension-related benefits and benefits in kind. Further information on each of the elements is set out below.

The non-executive directors' remuneration is determined by the Board and reflects the anticipated time commitment to fulfil their duties. Non-executive directors do not receive bonuses, long-term incentive awards, pension provision or compensation on termination of their appointments.

Basic salary

The Committee determined that, with effect from 1 July 2012, the executive directors' basic salaries would increase as follows:

	From 1 July 2012 £000	From 1 July 2011 £000	% increase
Steve Bowcott	**343**	330	4
Ian Lawson	**393**	385	2
Haydn Mursell	**343**	330[1]	4
Paul Sheffield	**469**	460	2

1 With effect from 1 November 2011. From 1 July 2011 to 31 October 2011, Haydn Mursell's basic salary was £310,000 and he was not awarded an increase in salary with effect from 1 July 2011.

These increases are in line with the prevailing rate of inflation and are within the range of increases awarded to employees across the Group.

The greater increases for Haydn Mursell and Steve Bowcott reflect the continued significant progress and contribution of both individuals in their respective roles.

It was also decided that the fees payable to the non-executive directors would increase with effect from 1 July 2012, as follows:

	From 1 July 2012 £000	From 1 July 2011 £000
Richard Bailey[1]	**53**	52
Chris Geoghegan[2]	**55**	54
Amanda Mellor[3]	**44**	43
Phil White	**162**	158
Nick Winser	**44**	43

1 The fees payable to Richard Bailey include an amount in respect of his position as chairman of the Risk Management and Audit Committee.
2 The fees payable to Chris Geoghegan include an amount in respect of his positions as senior independent non-executive director and chairman of the Remuneration Committee.
3 Amanda Mellor was appointed to the Board with effect from 1 December 2011.

Annual bonus arrangements

During the year ended 30 June 2012, executive directors were eligible to receive a cash bonus of up to 100% of basic salary. Of this, a maximum of 60% was payable if the Group achieved certain profit performance targets and a maximum of 25% was payable if the Group achieved certain cash performance targets. The remaining 15% was payable if corporate responsibility and health and safety performance targets, which are considered to be key non-financial measures for the Group, were achieved.

The Group's reported profit before exceptional items and tax for the year exceeded budget and the Group also exceeded its cash target and achieved its health and safety and corporate responsibility targets. The Committee therefore determined that a bonus of 75% of basic salary would be payable to each of the executive directors during the year, with 60% of basic salary being payable with respect to the Group's financial performance and 15% relating to health and safety and corporate responsibility targets. The Committee was satisfied that this bonus was commensurate with the Group's overall performance for the year. Further details of these payments are set out in the table on page 69.

One-third of any annual bonus awarded to the executive directors is satisfied by Kier Group plc shares and is subject to clawback in certain circumstances. A similar approach is applied to the annual bonus arrangements for members of the senior management team. The Committee believes that part satisfaction of the annual bonus in Kier Group plc shares further strengthens the alignment of interests of the executive directors, and of the divisional directors, with those of shareholders.

The executive directors will continue to be entitled to receive a cash bonus of up to 100% of basic salary in respect of the financial year ending 30 June 2013, of which one-third will be satisfied in Kier Group plc shares.

Long-term incentives

During the year, contingent awards under the 2010 LTIP of 100% of salary were made to the executive directors on 17 November 2011. Lesser awards were also made to the senior management team and other key employees, so as to further strengthen alignment with shareholders' interests.

For each new award cycle, the Committee sets performance targets which it considers to be stretching but achievable, using both external reference points (for example, brokers' earnings forecasts) and internal forecasts.

The awards made on 17 November 2011 are subject to the satisfaction of performance criteria which relate to the Group's earnings per share (EPS) and total shareholder return (TSR) over a three-year period ending 30 June 2014. Two-thirds of these awards relate to TSR performance; one-third relates to EPS performance. Further details are provided below.

EPS

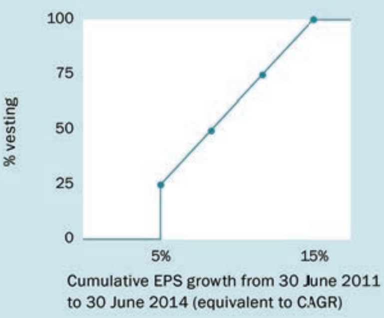
The Committee believes that EPS continues to be a key measure of long-term performance for the Group and that measuring EPS targets on a cumulative basis provides robust performance targets. By way of illustration, cumulative EPS growth of 15% over a three-year performance period against a previous year EPS of 100p would be achieved if cumulative EPS over the performance period is at least 399p. None of the EPS element of the awards made on 17 November 2011 will vest if the Group's cumulative EPS growth over the performance period is less than 5% per annum, 25% of the EPS element will vest for cumulative EPS growth of 5% per annum and 100% will vest for cumulative EPS growth of 15% per annum or higher. Awards will vest on a straight-line basis for cumulative EPS performance between these two points.

TSR

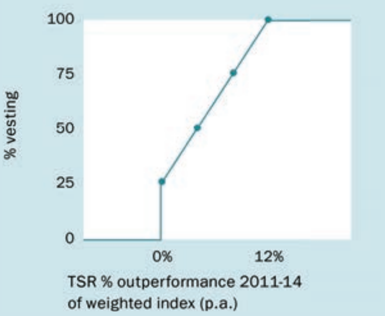
TSR outperformance is measured on a multiplicative basis relative to a revenue weighted index based on the FTSE ASX Construction index and the FTSE ASX Support Services index. For each award cycle, the revenue weightings are fixed based on the Group's approximate prior year revenue mix. Such a weighted index is intended to provide a better reflection of the Group's overall business mix and therefore provide a more robust measure of management's contribution to long-term value creation. For the awards made on 17 November 2011, these weightings were 75% on the Construction index and 25% on the Support Services index. For example, over the three-year period, if Construction index TSR is 16% and Support Services index TSR is 12%, the Group's TSR will need to be at least 15% ((75% x 16%) + (25% x 12%)) for this element of the LTIP award to vest.

If TSR performance is in line with the weighted index, 25% of the TSR element of the awards will vest and 100% of the TSR element will vest for 12% per annum outperformance of the weighted index or higher. Awards will vest on a straight-line basis for performance between these two points. At the date of the awards, 12% per annum outperformance of the weighted index was consistent with levels of historical levels of upper quintile performance.

EPS element of the award



TSR element of the award



2013 award

In line with its commitment to review the 2010 LTIP after its first two award cycles, the Committee undertook such a review and concluded that the award levels and performance targets for the awards granted to the executive directors in the 2011 and 2012 financial years remained appropriate for those to be granted in the 2013 financial year (other than for the award to be granted to Haydn Mursell: please see below for further details). Two-thirds of the 2013 award will relate to TSR performance, one-third to growth in EPS. However, the Committee also concluded that it was important to ensure that the performance targets (in particular, relating to EPS), while remaining stretching, are also realistically achievable in the light of prevailing market conditions. The Committee therefore agreed to keep the targets for future years under review and will consult with shareholders prior to implementing any changes.

During the 2013 financial year, the Committee will grant Haydn Mursell an award under the 2010 LTIP of 200% of his salary, two-thirds of which will relate to the Group's TSR performance and one-third to EPS growth. This award is within the rules of the 2010 LTIP, which were approved and adopted by shareholders at the 2010 annual general meeting. As part of its decision-making process, the Committee consulted with, and took into account feedback received from, a wide range of the Group's institutional investors and shareholder representative bodies.

Long-term incentives

Outstanding awards made to those persons who, during the year ended 30 June 2012, served as a director of the Company under either the 1999 LTIP or the 2010 LTIP are in the form of a deferred contingent right to acquire, at no cost to the individual, the following maximum number of ordinary shares in the Company:

	2010 award	2011 award	2012 award	**Cumulative total 30 June 2012**	Cumulative total 30 June 2011
Steve Bowcott	6,635	24,218	23,239	**54,092**	39,827
Ian Lawson	25,781	29,296	27,113	**82,190**	89,948
Haydn Mursell	–	24,218	23,239	**47,457**	24,218
Paul Sheffield	25,781	33,593	32,394	**91,768**	94,245
Date of award	13 October 2009	15 November 2010	17 November 2011		
Share price at the time of award	1,055p	1,271p	1,398p		
End of performance period	30 June 2012	30 June 2013	30 June 2014		

The performance criteria relating to the 2012 award are set out on page 65 and 66. The 2011 award is subject to the same performance criteria as the 2012 award, although the TSR and EPS elements of the former are equally weighted but are weighted two-thirds:one-third, respectively, in the case of the latter.

Principally as a result of a significant increase in the Group's profit before tax and a significant decrease in the Group's effective tax rate, the Group's profit after tax excluding exceptional items increased by 58.7% over the performance period for the 2010 award from £36.6m in 2009 to £58.1m in 2012. As a result, growth in EPS over the performance period was 52.9%, which was sufficient for those directors who received the 2010 award to receive 100% of such award. These directors will be entitled to receive the number of ordinary shares in the Company set out below, at no cost to the individual, on 14 September 2012. Income tax and national insurance contributions will be payable in respect of the vesting of the awards.

Those persons who served as a director during the year ended 30 June 2012 will be entitled to the following number of ordinary shares in the capital of the Company as a result of the vesting of the 2010 award:

	Number of ordinary shares
Steve Bowcott	6,635
Ian Lawson	25,781
Paul Sheffield	25,781

The former members of the Board referred to below (each of whom was a director at the date of the award) will also be entitled to receive ordinary shares in the Company, at no cost to the individual, as a result of the vesting of the 2010 award. Income tax and national insurance contributions will be payable in respect of the vesting of the awards. Upon leaving the Company, the maximum number of shares to which such individuals were entitled was pro-rated to reflect their length of service during the performance period for the 2010 award and each of the individuals will receive 100% of such pro-rated award.

	Number of ordinary shares
John Dodds[1]	22,535
Deena Mattar[2]	17,501
Richard Simkin[3]	17,187

1 John Dodds' entitlement to the 2010 award was pro-rated to 22,535 shares upon cessation of his service with the Group on 31 October 2010. John Dodds has no further entitlement to awards under the 2010 LTIP.
2 Deena Mattar's maximum entitlement to the 2010 award was pro-rated to 17,501 shares upon cessation of her service with the Group on 31 May 2011. Deena Mattar has no further entitlement to awards under the 2010 LTIP.
3 Richard Simkin's maximum entitlement to the 2010 and 2011 awards was pro-rated to 17,187 and 8,583 shares, respectively, upon cessation of his service with the Group on 30 June 2011. Richard Simkin has no further entitlement to awards under the 2010 LTIP.

With effect from the financial year ended 30 June 2011, profits arising on disposals of PFI investments have been included within the Group's profit from operations before exceptional items. Therefore, profits arising on any PFI sales have been, or will be, included for the purposes of calculating the vesting of the 2010, 2011 and 2012 awards and all future awards under the 2010 LTIP, both in relation to establishing the opening EPS position with respect to an award and in assessing the Group's performance during the relevant performance period.

Directors' remuneration report
continued

Directors' pensions

Executive directors participate in the Kier Group Pension Scheme (the Pension Scheme) which has both a defined benefit section and a defined contribution section.

Executive directors accrue pension up to the value of the lifetime allowance. Where the value of pension benefits exceeds the lifetime allowance, future pension accrual ceases and a cash supplement is paid. Following changes to the taxation of UK pensions and, in particular, the reduction in the annual allowance, the trustees of the Pension Scheme and the Company have agreed that an executive director's annual pension provision may be replaced partly by a cash supplement.

The level of cash supplement is 20% of that salary which is no longer pensionable (or, in the case of Ian Lawson, 30%, as the cost of his current membership of the pension scheme is higher than for the other directors). The Committee has determined the level of cash supplement for each individual with a view to maintaining the Group's pension-related costs at their current level. An assessment has been carried out by the Pension Scheme's actuary of the cost to the Group of the current benefit provision and the individual supplements have been set at levels which are commensurate with the value of the pension benefit foregone. The Committee believes that the levels of supplement are in line with market practice.

Only the basic salary of directors is pensionable. Any cash supplement is excluded in determining annual bonus and long-term incentive entitlements.

Pension benefits earned by those persons who served as a director during the year ended 30 June 2012 and are members of the defined benefit section of the Pension Scheme are as follows:

	Increase in accrued pension over the year £000	Increase in accrued pension over the year[1] £000	Transfer value of increase in accrued pension[2] £000	Accumulated total accrued pension at 30 June 2012 £000	Transfer value of accrued pension at 30 June 2011 £000	Increase in transfer value £000	Transfer value of accrued pension at 30 June 2012 £000
Ian Lawson[3]	3	(2)	(31)	94	1,384[4]	292	1,676
Paul Sheffield[5]	8	–	–	148	1,897	520	2,417

1 The figures in this column represent the difference between the total accrued benefit at the end of the year and the equivalent amount at the beginning of the year. The figures shown have been adjusted to allow for the Retail Prices Index measure of inflation during the year.
2 The figures in this column are the transfer values of the increases in the directors' benefits during the year.
3 Ian Lawson's pension accrual in the Pension Scheme was suspended on 1 September 2011. Ian Lawson subsequently opted out of the Pension Scheme with effect from 5 April 2012 and became entitled to a deferred pension with effect from that date. Ian Lawson receives a cash allowance of 30% in lieu of continued pension accrual.
4 The figures relating to Ian Lawson's pension entitlement which were set out in the 2011 Annual Report and Accounts have been adjusted to reflect the previously agreed basis of accrual.
5 Paul Sheffield opted out of the Pension Scheme with effect from 30 June 2010 and became entitled to a deferred pension with effect from that date. Paul Sheffield receives a cash allowance of 20% in lieu of continued pension accrual.

The above transfer values have been calculated on the basis of actuarial advice from the Pension Scheme's actuary in accordance with UK legislation.

Members also have the option to pay additional voluntary contributions. Neither these contributions nor the resulting benefits are included in the above table.

Contributions paid to the defined contribution section of the Pension Scheme on behalf of the directors during the year ended 30 June 2012 were as follows:

	Contributions over the year £000
Steve Bowcott	50
Haydn Mursell	50

The above contributions are inclusive of contributions paid by the employer on behalf of the employee via a salary sacrifice arrangement.

All member contributions to the defined benefit section and the defined contribution section of the Pension Scheme are payable via a salary sacrifice arrangement.

Benefits in kind

Benefits in kind comprise membership of a private health insurance scheme and the provision of a company car or a car allowance.

Directors' total emoluments

The value of all emoluments receivable by those persons who have served as a director during the year ended 30 June 2012 was as follows:

	Salary and fees £000	Pension[1] supplement £000	Benefits £000	Bonus £000	**Total 2012 £000**	Total 2011 £000
Richard Bailey	52	–	–	–	**52**	38
Steve Bowcott	330	16	15	248	**609**	470
Chris Geoghegan	54	–	–	–	**54**	53
Ian Lawson	385	99	27	289	**800**	554
Amanda Mellor[2]	25	–	–	–	**25**	–
Haydn Mursell[3]	323	15	13	243	**594**	412
Paul Sheffield	460	92	15	345	**912**	753
Phil White	158	–	–	–	**158**	155
Nick Winser	43	–	–	–	**43**	42
John Dodds[4]	–	–	–	–	**–**	92
Simon Leathes[4]	–	–	–	–	**–**	39
Deena Mattar[4]	–	–	–	–	**–**	476
Richard Simkin[4]	–	–	–	–	**–**	555
Total	1,830	222	70	1,125	**3,247**	3,639

1 The pension supplement is explained in the pensions section on page 68.
2 Amanda Mellor became a member of the Board with effect from 1 December 2011.
3 In addition to the above amounts, the Group paid Haydn Mursell £287,485 (gross of tax) in respect of relocation expenses. Haydn Mursell's basic salary was increased from £310,000 to £330,000 per annum with effect from 1 November 2011.
4 John Dodds, Simon Leathes, Deena Mattar and Richard Simkin retired from the Board during previous financial years.

Service contracts and letters of appointment

	Effective date	Notice period
Richard Bailey	1 October 2010	1 month
Steve Bowcott	1 July 2010	12 months
Chris Geoghegan	1 July 2007	1 month
Ian Lawson	1 October 2005	12 months
Amanda Mellor	1 December 2011	1 month
Haydn Mursell	12 November 2010	12 months
Paul Sheffield	1 October 2005	12 months
Phil White	2 January 2008	1 month
Nick Winser	1 March 2009	1 month

No term is included in any of the executive directors' service agreements or the non-executive directors' letters of appointment. Notice may be served by either party to the service agreement or letter of appointment. However, each director is subject to re-election, in accordance with the Articles, further details of which are set out on page 57.

The executive directors' service agreements do not contain any provisions for compensation for loss of office. These service agreements contain provisions relating to early termination and, in such cases, the Committee will consider the specific circumstances, the Company's commitments under the service agreement and the director's obligations to mitigate.

The Committee believes that its policy in relation to notice periods and early termination payments under the directors' contracts is fair and reasonable in the interests of the Group and the individual concerned.

As indicated above, the Company has entered into letters of appointment with each of the non-executive directors. The letters of appointment do not include any provisions for the payment of predetermined compensation in the case of wrongful termination by the Company.

Directors' remuneration report

continued

Directors' interests

The directors of the Company at 30 June 2012 had the following beneficial interests (including interests of connected persons) in the ordinary shares of the Company:

	30 June 2012	1 July 2011 (or date of appointment, if later)
Richard Bailey	**–**	–
Steve Bowcott	**4,537**	2,451
Chris Geoghegan	**5,000**	5,000
Ian Lawson	**24,489**	21,031
Amanda Mellor	**–**	–
Haydn Mursell	**7,406**	5,321
Paul Sheffield	**44,375**	39,698
Phil White	**2,540**	2,540
Nick Winser	**3,500**	3,500

The table above includes, where relevant, matching shares purchased, at no cost to the individual, on their behalf under the AESOP and shares to which the executive directors are beneficially entitled as a result of receiving one-third of their 2011 bonuses in shares. The table does not include shares to which the executive directors will become entitled upon the vesting of the awards under the 1999 LTIP granted on 13 October 2009 and/or any shares to which the executive directors may become entitled upon the vesting of awards granted under the 2010 LTIP.

The executive directors, as potential beneficiaries of the Kier Group 1999 Employee Benefit Trust (the Trust), are deemed along with certain other UK employees to have an interest in 612,489 ordinary shares (2011: 522,664) with an aggregate nominal value of £6,125 (2011: £5,227), representing approximately 1.6% of the issued share capital of the Company, held by the Trust as at 12 September 2012.

At 12 September 2012, the Company had been notified that the following directors had acquired beneficial interests in further ordinary shares in the capital of the Company under the AESOP since 30 June 2012: Steve Bowcott, 43 shares; Ian Lawson, 43 shares; and Haydn Mursell, 44 shares. Certain directors acquired shares upon the exercise of options under the Sharesave Scheme since 30 June 2012: see below for further details. There have been no other changes in the interests of the directors (or their connected persons) in the ordinary shares in the capital of the Company since 30 June 2012.

Shareholding guidelines

The Committee encourages executive directors to build up a shareholding in the Company equal to at least one year's salary over a period of up to five years. Executive directors are therefore encouraged to retain any shares allocated to them as part of the annual bonus arrangements and 50% of the shares allocated to them upon the vesting of LTIP awards (net of tax) until this shareholding has been reached.

The Sharesave Scheme

The Sharesave Scheme is a save as you earn option scheme, approved by HM Revenue & Customs under Schedule 3 of the Income Tax (Earnings and Pensions) Act 2003. All eligible employees and executive directors are entitled to participate in the Sharesave Scheme. Performance conditions do not apply. There has been no variation of the terms and conditions of such options.

The directors of the Company at 30 June 2012 had the following options under the Sharesave Scheme:

	Date granted	Maximum number of shares receivable at 1 July 2011	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2012[1]	Exercise price	Exercise period
Steve Bowcott	17 April 2009[2]	1,220	–	–	–	1,220	750p	1 July 2012 – 1 January 2013
	27 April 2012	–	857	–	–	857	1,050p	1 July 2015 – 1 January 2016
Total		1,220	857	–	–	2,077		
Haydn Mursell	28 April 2011	784	–	–	–	784	1,150p	1 July 2014 – 1 January 2015
Total		784	–	–	–	784		

	Date granted	Maximum number of shares receivable at 1 July 2011	Awarded during the year	Exercised during the year	Lapsed during the year	Maximum number of shares receivable at 30 June 2012[1]	Exercise price	Exercise period
Ian Lawson	17 April 2009[3]	1,220	–	–	–	1,220	750p	1 July 2012 – 1 January 2013
	27 April 2012	–	857	–	–	857	1,050p	1 July 2015 – 1 January 2016
Total		1,220	857	–	–	2,077		
Paul Sheffield	17 April 2009[4]	1,220	–	–	–	1,220	750p	1 July 2012 – 1 January 2013
	27 April 2012	–	857	–	–	857	1,050p	1 July 2015 – 1 July 2016
Total		1,220	857	–	–	2,077		

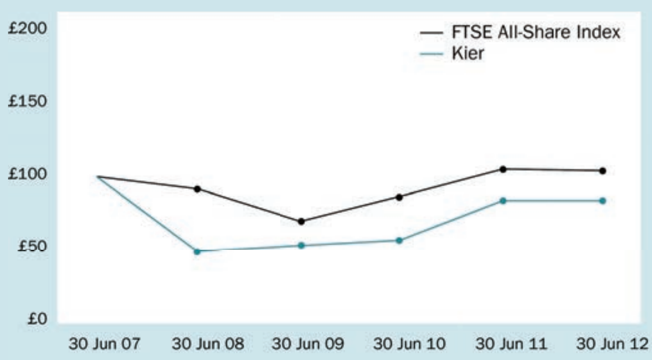
1 Assumes that the individuals continue to make the maximum permitted contribution to the Sharesave Scheme until the commencement of the relevant exercise period.
2 Exercised on 2 July 2012. Steve Bowcott's maximum number of shares receivable as at 12 September 2012 is 857.
3 Exercised on 2 July 2012. Ian Lawson's maximum number of shares receivable as at 12 September 2012 is 857.
4 Exercised on 9 July 2012. Paul Sheffield's maximum number of shares receivable as at 12 September 2012 is 857.

Share prices

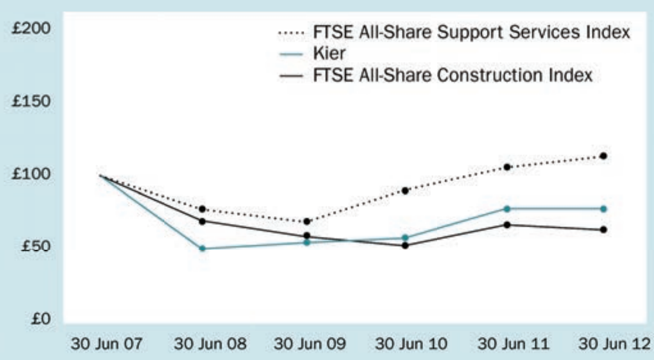
The market price of a Kier Group plc share at close of business on 30 June 2012 was 1,258p. The highest and lowest market prices of a Kier Group plc share during the year ended 30 June 2012 (in each case, at the close of business on the relevant day) were 1,489p and 1,095p, respectively.

Total shareholder return

The following graphs demonstrate cumulative TSR of the Company over the last five financial years. The graphs show the value, on 30 June 2012, of £100 invested in shares in the capital of the Company on 30 June 2007 compared with the value of £100 invested in the FTSE All Share Index, the FTSE All-Share Construction Index and the FTSE All-Share Support Services Index. The other points plotted are the values at intervening financial year ends.



Source: Bloomberg



Source: Bloomberg

Audited information

The information on pages 67 to 71 (other than the paragraphs entitled 'Service contracts and letters of appointment', 'Shareholding guidelines' and 'Total shareholder return') has been audited by the Company's auditor, KPMG Audit Plc.

Approval of report

Chris Geoghegan, the chairman of the Committee, will attend the forthcoming annual general meeting and will be available to answer any questions shareholders may have concerning the Group's policy on directors' remuneration. This directors' remuneration report will be submitted for approval by the Company at the forthcoming annual general meeting.

This report was approved by the Board on 12 September 2012 and signed on its behalf by:

Chris Geoghegan
Chairman of the Remuneration Committee

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare the Group and parent company financial statements for each financial year. Under that law, they are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the EU (IFRS) and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law, the 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 Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the directors are required to:

> select suitable accounting policies and then apply them consistently;

> make judgements and estimates that are reasonable and prudent;

> for the Group financial statements, state whether they have been prepared in accordance with IFRS, as adopted by the EU;

> for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and

> prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

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

They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a directors' report, a directors' remuneration report and a corporate governance statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement
We confirm that to the best of our knowledge:

> the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation as a whole; and

> the operating and financial review, which forms part of the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Signed on behalf of the Board by:

Paul Sheffield
Chief Executive

Haydn Mursell
Group Finance Director

Independent auditor's report to the members of Kier Group plc

We have audited the financial statements of Kier Group plc for the year ended 30 June 2012 set out on pages 74 to 115. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IRFS) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with chapter 3 of part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement set out on page 72, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2012 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion:

- the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the corporate governance statement set out on pages 59 to 63 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 56, in relation to going concern;
- the part of the corporate governance statement on page 59 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

Andrew Marshall (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London E14 5GL

12 September 2012

Consolidated income statement

For the year ended 30 June 2012

	Notes	2012 Before exceptional items £m	2012 Exceptional items* £m	2012 Total £m	2011 Before exceptional items £m	2011 Exceptional items* £m	2011 Total £m
Revenue							
Group and share of joint ventures	2	**2,069.2**	**–**	**2,069.2**	2,178.8	–	2,178.8
Less share of joint ventures		**(38.7)**	**–**	**(38.7)**	(55.8)	–	(55.8)
Group revenue		**2,030.5**	**–**	**2,030.5**	2,123.0	–	2,123.0
Cost of sales		**(1,815.1)**	**(3.2)**	**(1,818.3)**	(1,911.5)	(33.5)	(1,945.0)
Gross profit		**215.4**	**(3.2)**	**212.2**	211.5	(33.5)	178.0
Administrative expenses		**(152.4)**	**(0.4)**	**(152.8)**	(151.8)	(0.8)	(152.6)
Credit on retirement benefit obligations		**–**	**–**	**–**	–	25.7	25.7
Movement in provision for fine imposed by the Office of Fair Trading		**–**	**–**	**–**	–	15.6	15.6
Share of post-tax results of joint ventures	14	**1.3**	**–**	**1.3**	0.4	–	0.4
Profit on disposal of joint ventures	30b	**6.7**	**–**	**6.7**	5.9	–	5.9
Profit from operations	2	**71.0**	**(3.6)**	**67.4**	66.0	7.0	73.0
Finance income	5	**2.6**	**–**	**2.6**	3.7	–	3.7
Finance cost	5	**(7.0)**	**–**	**(7.0)**	(4.2)	–	(4.2)
Profit before tax	2	**66.6**	**(3.6)**	**63.0**	65.5	7.0	72.5
Taxation	9a	**(8.5)**	**0.8**	**(7.7)**	(12.3)	2.1	(10.2)
Profit for the year		**58.1**	**(2.8)**	**55.3**	53.2	9.1	62.3
Attributable to:							
Equity holders of the parent		**57.0**	**(2.8)**	**54.2**	52.7	9.1	61.8
Minority interests	12	**1.1**	**–**	**1.1**	0.5	–	0.5
		58.1	**(2.8)**	**55.3**	53.2	9.1	62.3
Earnings per share	11						
– basic		**150.0p**		**142.6p**	141.7p		166.1p
– diluted		**147.3p**		**140.1p**	139.8p		163.9p
Adjusted earnings per share (excluding the amortisation of intangible assets relating to contract rights)	11						
– basic		**156.8p**			148.4p		
– diluted		**154.0p**			146.4p		

* Exceptional items as detailed in note 4 relate to:
- provision for losses on disposal of the majority of the Plant business;
- movement in the provision for a fine imposed by the Office of Fair Trading;
- property, land and work in progress write-downs;
- acquisition costs; and
- pensions past service credit.

All results are derived from continuing operations.

Consolidated statement of comprehensive income

For the year ended 30 June 2012

	Notes	2012 £m	2011 £m
Profit for the year		**55.3**	62.3
Other comprehensive (loss)/income			
Cash flow hedge movements realised on sale of joint ventures		**–**	10.1
Share of joint venture fair value movements in cash flow hedging instruments		**(10.7)**	(4.7)
Actuarial (losses)/gains on defined benefit pension schemes		**(49.0)**	12.6
Other comprehensive (loss)/income before taxation		**(59.7)**	18.0
Deferred tax on items recognised directly in equity (including effect of change in tax rate)			
Share of joint venture cash flow hedging instruments		**2.3**	(1.7)
Actuarial (losses)/gains on defined benefit pension schemes		**7.5**	(7.8)
Taxation on other comprehensive income/(loss)	9b	**9.8**	(9.5)
Other comprehensive (loss)/income for the year		**(49.9)**	8.5
Total comprehensive income for the year		**5.4**	70.8
Attributable to:			
Equity holders of the parent		**4.3**	70.3
Minority interests		**1.1**	0.5
		5.4	70.8

Consolidated statement of changes in equity

For the year ended 30 June 2012

	Share capital £m	Share premium £m	Capital redemption reserve £m	Retained earnings £m	Cash flow hedge reserve £m	Translation reserve £m	**Attributable to equity holders of the parent £m**	Minority interest £m	**Total equity £m**
At 30 June 2010	0.4	38.8	2.7	72.5	(11.3)	0.2	**103.3**	0.9	**104.2**
Profit for the year	–	–	–	61.8	–	–	**61.8**	0.5	**62.3**
Other comprehensive income for the year	–	–	–	4.8	3.7	–	**8.5**	–	**8.5**
Dividends paid	–	–	–	(22.1)	–	–	**(22.1)**	(0.5)	**(22.6)**
Issue of own shares	–	8.1	–	–	–	–	**8.1**	–	**8.1**
Share-based payments charge	–	–	–	2.7	–	–	**2.7**	–	**2.7**
Tax on share-based payments	–	–	–	1.0	–	–	**1.0**	–	**1.0**
At 30 June 2011	0.4	46.9	2.7	120.7	(7.6)	0.2	**163.3**	0.9	**164.2**
Profit for the year	–	–	–	54.2	–	–	**54.2**	1.1	**55.3**
Other comprehensive income for the year	–	–	–	(41.5)	(8.4)	–	**(49.9)**	–	**(49.9)**
Dividends paid	–	–	–	(24.8)	–	–	**(24.8)**	(0.1)	**(24.9)**
Issue of own shares	–	8.1	–	–	–	–	**8.1**	–	**8.1**
Purchase of own shares	–	–	–	(1.2)	–	–	**(1.2)**	–	**(1.2)**
Share-based payments charge	–	–	–	2.9	–	–	**2.9**	–	**2.9**
Tax on share-based payments	–	–	–	(0.3)	–	–	**(0.3)**	–	**(0.3)**
At 30 June 2012	**0.4**	**55.0**	**2.7**	**110.0**	**(16.0)**	**0.2**	**152.3**	**1.9**	**154.2**

Consolidated balance sheet

At 30 June 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Intangible assets	12	**28.8**	27.0
Property, plant and equipment	13	**102.8**	96.0
Investment in joint ventures	14	**7.5**	9.1
Retirement benefit asset	8	**1.2**	1.5
Deferred tax assets	15	**28.2**	34.4
Trade and other receivables	18	**32.9**	17.6
Non-current assets		**201.4**	185.6
Current assets			
Inventories	16	**394.7**	430.9
Trade and other receivables	18	**377.5**	329.9
Income tax receivable		**10.7**	3.0
Other financial assets	27	**–**	0.2
Assets held for sale	19	**13.0**	–
Cash and cash equivalents	20	**159.1**	195.1
Current assets		**955.0**	959.1
Total assets		**1,156.4**	1,144.7
Current liabilities			
Borrowings	20	**(30.3)**	–
Finance lease obligations	21	**(1.3)**	–
Other financial liabilities	27	**(0.3)**	–
Trade and other payables	22	**(816.6)**	(799.2)
Provisions	23	**(1.8)**	(10.0)
Current liabilities		**(850.3)**	(809.2)
Non-current liabilities			
Borrowings	20	**–**	(30.3)
Finance lease obligations	21	**(7.3)**	–
Other financial liabilities	27	**(0.3)**	–
Trade and other payables	22	**(37.2)**	(68.3)
Retirement benefit obligations	8	**(59.0)**	(31.1)
Provisions	23	**(47.8)**	(41.2)
Deferred tax liabilities	15	**(0.3)**	(0.4)
Non-current liabilities		**(151.9)**	(171.3)
Total liabilities		**(1,002.2)**	(980.5)
Net assets	2	**154.2**	164.2
Equity			
Share capital	24	**0.4**	0.4
Share premium		**55.0**	46.9
Capital redemption reserve		**2.7**	2.7
Retained earnings		**110.0**	120.7
Cash flow hedge reserve	24	**(16.0)**	(7.6)
Translation reserve	24	**0.2**	0.2
Equity attributable to equity holders of the parent		**152.3**	163.3
Minority interests	12	**1.9**	0.9
Total equity		**154.2**	164.2

The financial statements were approved by the Board of directors on 12 September 2012 and were signed on its behalf by:

Paul Sheffield

Haydn Mursell

Directors

Consolidated cash flow statement

For the year ended 30 June 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Profit before tax		**63.0**	72.5
Adjustments for exceptional items			
Provision for losses on disposal of the majority of the Plant business		**3.2**	–
Acquisition costs		**0.4**	0.8
Credit on retirement benefit obligations		**–**	(25.7)
Movement in provision for fine imposed by the Office of Fair Trading		**–**	(15.6)
Property, land and work in progress write-downs		**–**	33.5
Other adjustments			
Share of post-tax trading results of joint ventures	14	**(1.3)**	(0.4)
Normal contributions to pension fund in excess of pension charge		**(9.7)**	(6.8)
Equity settled share-based payments charge	25	**2.9**	2.7
Amortisation and impairment of intangible assets	12	**3.7**	3.4
Depreciation charges	13	**13.9**	14.5
Profit on disposal of joint ventures		**(6.7)**	(5.9)
Profit on disposal of property, plant and equipment		**(1.4)**	(4.3)
Net finance cost	5	**4.4**	0.5
Operating cash flows before movements in working capital		**72.4**	69.2
Special contributions to pension fund		**(11.1)**	(12.5)
Payment of acquisition costs		**–**	(0.8)
Payment of fine imposed by the Office of Fair Trading		**–**	(1.7)
Decrease in inventories		**36.0**	19.9
(Increase)/decrease in receivables		**(63.4)**	4.2
Decrease in payables		**(15.4)**	(24.1)
(Decrease)/increase in provisions		**(2.6)**	7.7
Cash inflow from operating activities		**15.9**	61.9
Dividends received from joint ventures	14	**0.3**	0.1
Interest received		**3.2**	2.7
Income taxes paid		**(2.1)**	(11.4)
Net cash generated from operating activities		**17.3**	53.3
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**6.3**	14.8
Proceeds from sale of joint ventures	30b	**8.1**	13.7
Purchases of property, plant and equipment		**(41.2)**	(28.4)
Purchase of intangible assets		**(1.8)**	(1.4)
Acquisition of subsidiaries	30a	**(4.5)**	(37.7)
Net investment in joint ventures	14	**(6.9)**	(6.8)
Net cash used in investing activities		**(40.0)**	(45.8)
Cash flows from financing activities			
Issue of shares		**0.3**	0.2
Purchase of own shares		**(1.2)**	–
Interest paid		**(3.9)**	(3.4)
Inflow from finance leases on property, plant and equipment		**9.1**	–
Finance lease repayments		**(0.5)**	–
Dividends paid to equity holders of the parent		**(17.0)**	(14.2)
Dividends paid to minority interests		**(0.1)**	(0.5)
Net cash used in financing activities		**(13.3)**	(17.9)
Decrease in cash and cash equivalents		**(36.0)**	(10.4)
Opening cash and cash equivalents		**195.1**	205.5
Closing cash and cash equivalents		**159.1**	195.1
Reconciliation of net cash flow to movement in net funds			
Decrease in cash and cash equivalents		**(36.0)**	(10.4)
Opening net funds		**164.8**	175.2
Closing net funds		**128.8**	164.8
Net funds consist of:			
Cash and cash equivalents		**159.1**	195.1
Borrowings		**(30.3)**	(30.3)
Net funds	20	**128.8**	164.8

Notes to the consolidated financial statements

1 Significant accounting policies

Kier Group plc (the Company) is a company domiciled in the United Kingdom (UK). The consolidated financial statements of the Company for the year ended 30 June 2012 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in jointly controlled entities.

The consolidated financial statements were approved by the directors on 12 September 2012.

Statement of compliance
The Group's consolidated financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU (IFRS). The Company has elected to prepare its parent company financial statements in accordance with UK Generally Accepted Accounting Practice (GAAP). These are presented on pages 111 to 113.

Basis of preparation
The Group has considerable financial resources, together with long-term contracts with a number of customers and suppliers across its business activities. As a consequence, the directors believe that the Group is well placed to manage its business risks effectively.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors continue to adopt the going concern basis in preparing the Group's financial statements.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

The financial statements are presented in pounds sterling. They have been prepared on the historical cost basis except for derivative financial instruments which are stated at their fair value, certain inventories that are valued at net realisable value and certain payables on extended terms which are stated at discounted cost.

The following amendments to standards or interpretations are mandatory for the first time for the financial year ended 30 June 2012:

IAS 24	'Related party disclosures (revised 2009)'
IFRIC 14	'Amendment – prepayments of a minimum funding requirement'

The adoption of these amendments and interpretations has not resulted in changes to the Group's accounting policies and has not had a material impact on amounts reported for the current or prior years.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year ended 30 June 2012:

IAS 19R	'Employee benefits'
IAS 27	'Separate financial statements (revised 2011)'
IAS 28	'Investments in associates and joint ventures (revised 2011)'
IAS 32	'Amendment – offsetting financial assets and financial liabilities'
IFRS 9	'Financial instruments'
IFRS 10	'Consolidated financial statements'
IFRS 11	'Joint arrangements'
IFRS 12	'Disclosures of interest in other entities'
IFRS 13	'Fair value measurement'
IFRIC 20	'Stripping costs in the production phase of a surface mine'

Improvements to IFRS's (2010)

The directors have considered the impact of these new standards and interpretations in future periods. The impact of the adoption of IAS 19R which is effective for the year ending 30 June 2014 is to replace the credit for the expected return on scheme assets and the charge for the interest cost on scheme liabilities in the income statement with an interest charge on the net pension deficit. If this new standard had been implemented for the year ended 30 June 2012 the pension charge in the income statement would have increased by £12.0m with a matching credit direct to equity. This change has no impact on the pension deficit or cash.

Other than the impact of IAS 19R as noted above, no significant net impact from the adoption of these new standards is expected. The Group has chosen not to adopt any of the above standards and interpretations early.

Basis of consolidation
(a) Subsidiaries
The consolidated financial statements comprise the financial statements of the Company and subsidiaries controlled by the Company drawn up to 30 June 2012. Control exists when the Group has direct or indirect power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date that control transfers to the Group until the date that control ceases.

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

1 Significant accounting policies continued

(b) Joint ventures
A joint venture is a contractual arrangement whereby the Group undertakes an economic activity that is subject to joint control with third parties.

The Group's interests in jointly controlled entities are accounted for using the equity method. Under this method the Group's share of the profits less losses of jointly controlled entities is included in the consolidated income statement and its interest in their net assets is included in investments in the consolidated balance sheet. Where the share of losses exceeds the Group's interest in the entity and there is no obligation to fund these losses the carrying amount is reduced to nil and recognition of further losses is discontinued; future profits are not recognised until unrecognised losses are extinguished. Interest in the entity is the carrying amount of the investment together with any long-term interests that, in substance, form part of the net investment in the entity.

Where a Group company is party to a jointly controlled operation, that company accounts for the assets it controls, the liabilities and expenses it incurs and its share of the income. Such joint arrangements are reported in the consolidated financial statements on the same basis.

Goodwill and other intangible assets
Goodwill arising on consolidation represents the excess of the consideration over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or jointly controlled entity at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. Negative goodwill is recognised in the income statement immediately. On disposal of a subsidiary or jointly controlled entity, the attributable carrying amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before 1 July 2004, being the date of transition to IFRS, has been retained at the previous UK GAAP amounts at 1 July 2004 subject to being tested for impairment. Goodwill written off to reserves under UK GAAP prior to 1998 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Other intangible assets which comprise contract rights and computer software are stated at cost less accumulated amortisation and impairment losses. Amortisation is charged to cost of sales in the income statement on a straight-line basis over the expected useful lives of the assets.

Exceptional items
Items which are significant by their size and nature to require separate disclosure are reported separately in the income statement in the column headed 'Exceptional items'.

Revenue and profit recognition
Revenue comprises the fair value of the consideration received or receivable, net of value added tax, rebates and discounts and after eliminating sales within the Group. It also includes the Group's proportion of work carried out under jointly controlled operations.

Revenue and profit are recognised as follows:

a) Construction contracts
Revenue arises from increases in valuations on contracts and is normally determined by external valuations. It is the gross value of work carried out for the period to the balance sheet date (including retentions) but excludes claims until they are actually certified.

Profit on contracts is calculated in accordance with accounting standards and industry practice. Industry practice is to assess the estimated final out-turn of each contract and recognise the profit based upon the percentage of completion of the contract at the relevant date. The assessment of the final out-turn of each contract focuses on detailed and regular review procedures designed to forecast the revenues and costs to complete a contract on an individual contract basis. Consistent contract review procedures are in place in respect of contract forecasting.

The general principles for profit recognition are as follows:

- profits on short duration contracts (generally less than 12 months) are taken when the contract is complete;
- profits on other contracts are recognised on a percentage of completion basis when the contract's outcome can be estimated reliably;
- provision is made for losses incurred or foreseen in bringing the contract to completion as soon as they become apparent; and
- claims receivable are recognised as income when received or certified for payment except that, in preparing contract forecasts to completion, a prudent and reasonable evaluation of claims receivable may be included to mitigate foreseeable losses but only to the extent that there is reasonable certainty of recovery.

Percentage completion is normally calculated by taking certified value to date as a percentage of estimated final value unless the internal value is materially different in which case the internal value is used.

b) Services
Revenue and profit from services rendered is recognised when the service is provided.

c) Private housing and land sales
Revenue from housing sales is recognised at the fair value of the consideration received or receivable on legal completion, net of incentives. Revenue from land sales and land exchanges is recognised on the unconditional exchange of contracts. Profit is recognised on a site-by-site basis by reference to the expected out-turn result from each site. The principal estimation technique used by the Group in attributing profit on sites to a particular period is the preparation of forecasts on a site-by-site basis. These focus on revenues and costs to complete and enable an assessment to be made of the final out-turn on each site. Consistent review procedures are in place in respect of site forecasting. Provision is made for any losses foreseen in completing a site as soon as they become apparent.

d) Property development
Revenue in respect of property developments is taken on unconditional exchange of contracts on disposal of finished developments. Profit taken is subject to any amounts necessary to cover residual commitments relating to development performance. Provision is made for any losses foreseen in completing a development as soon as they become apparent.

Notes to the consolidated financial statements
continued

1 Significant accounting policies continued

Where developments are sold in advance of construction being completed, revenue and profit are recognised from the point of sale and as the significant outstanding acts of construction and development are completed. If a development is sold in advance of the commencement of construction, no revenue or profit is recognised at the point of sale. Revenue and profit are recognised in line with the progress on construction based on the percentage of completion of the construction and development works. If a development is sold during construction but prior to completion, revenue and profit are recognised at the time of sale in line with percentage completion of construction and development works at the time of sale and thereafter in line with the percentage of completion of the construction and development works.

If a development is sold after construction and development works are completed revenue and profit are recognised in full at the point of sale.

e) PFI service concession agreements

Revenue relating to construction or upgrade services under a service concession arrangement is recognised based on the stage of completion of the work performed, consistent with the Group's accounting policy on recognising revenue on construction contracts (see (a) above). Operation or service revenue is recognised in the period in which the services were provided by the Group. When the Group provides more than one service in a service concession agreement, the consideration received is allocated by reference to the relative fair values of the services delivered.

Pre-contract costs

Costs associated with bidding for contracts are written off as incurred (pre-contract costs). When it is probable that a contract will be awarded, usually when the Group has secured preferred bidder status, costs incurred from that date to the date of financial close are carried forward in the balance sheet as other receivables.

When financial close is achieved on Private Finance Initiative (PFI) or Public Private Partnership (PPP) contracts, costs are recovered from the special purpose vehicle and pre-contract costs within this recovery that were not previously capitalised are credited to the income statement, except to the extent that the Group retains a share in the special purpose vehicle. The amount not credited is deferred and recognised over the life of the construction contract to which the costs relate.

Property, plant and equipment and depreciation

Depreciation is based on historical or deemed cost, less the estimated residual value, and the estimated economic lives of the assets concerned. Freehold land is not depreciated. Other tangible assets are depreciated in equal annual instalments over the period of their estimated economic lives, which are principally as follows:

Freehold buildings	25-50 years
Leasehold buildings and improvements	Period of lease
Plant, equipment and vehicles	3-12 years

Assets held under finance leases are depreciated over the shorter of the term of the lease or the expected useful life of the asset.

Leases

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the rental charges are charged to the income statement on a straight-line basis over the life of each lease.

Employee benefits

(a) Retirement benefit obligations

For defined contribution pension schemes operated by the Group, amounts payable are charged to the income statement as they fall due.

For defined benefit pension schemes, the cost of providing benefits is calculated annually by independent actuaries using the projected unit credit method. The charge to the income statement reflects the current and past service costs of such obligations, and the interest cost on scheme liabilities less the expected return on plan assets.

The retirement benefit obligation represents the difference between the fair value of scheme assets and the present value of scheme liabilities. It is determined biannually by independent actuaries and recognised in full in the balance sheet. Differences between the actual and expected returns on assets and experience gains and losses arising on scheme liabilities during the year, together with differences arising from changes in assumptions, are recognised in full directly in reserves via the statement of comprehensive income in the year.

The recognised pension asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan expected at the balance sheet date.

The Group's contributions to the schemes are paid in accordance with the rules of the schemes and the recommendation of the actuary.

(b) Share-based payments

Share-based payments granted but not vested, are valued at the fair value of the shares at the date of grant. This affects the Sharesave and LTIP schemes. The fair value of these schemes at date of award is calculated using the Black-Scholes model.

The cost to the Group of awards to employees under the LTIP scheme is spread on a straight-line basis over the relevant performance criteria period. The scheme awards to senior employees a number of shares which will vest after three years if particular criteria are met. The Group has the option to make the awards either as shares or as a combination of shares and cash, based on the share price prevailing when the shares vest. The cost of the share-based payment element of the scheme is based on the fair value of the shares at the date the options are granted, and the cost of the cash-based payment element is based on the market value of the share options at the balance sheet date.

Shares purchased and held in trust in connection with the Group'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 to the original cost.

Finance income and costs

Interest receivable and payable on bank balances is credited or charged to the income statement as incurred.

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

1 Significant accounting policies continued

Borrowing costs incurred within the Group's jointly controlled entities relating to the construction of assets in PFI and PPP projects are capitalised until the relevant assets are brought into operational use.

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

Taxation
Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is also recognised in equity.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Foreign currencies
Transactions denominated in foreign currencies are recorded at the exchange rates in effect when they take place. Resulting foreign currency denominated assets and liabilities are translated at the exchange rates ruling at the balance sheet date. Exchange differences arising from foreign currency transactions are reflected in the income statement.

The assets and liabilities of overseas subsidiary undertakings are translated at the rate of exchange ruling at the balance sheet date. Trading profits or losses are translated at average rates prevailing during the accounting period. Differences on exchange arising from the retranslation of net investments in overseas subsidiary undertakings at the year-end rates are recognised in the translation reserve. All other translation differences are reflected in the income statement.

Mining assets
Opencast expenditure incurred prior to the commencement of operating opencast sites is capitalised and the cost less the residual value is depreciated over the coaling life of the site on a coal extraction basis. The total cost of restoration is recognised as a provision as soon as the mine becomes operational. The amount provided represents the present value of the anticipated costs. Costs are charged against the provision as incurred and the unwinding of the discount is included within interest costs. A tangible asset is created for an amount equivalent to the initial provision and depreciated on a coal extraction basis over the life of the asset. Where there is a subsequent change in the estimate of restoration costs or discount rate, the present value of the change is recognised in the cost of the tangible asset with a corresponding change to the restoration provision. The resulting impact on the unwinding of the discount is recognised in the year of change.

Inventories
Inventories and work in progress, including land held for and in the course of development, are valued at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and production overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Cost in certain circumstances also includes notional interest as explained in the accounting policy for finance income and costs. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Construction work in progress is included within inventories in the balance sheet. It is measured at cost plus profit less losses recognised to date less progress billings. If payments received from customers exceed the income recognised, the difference is included within trade and other payables in the balance sheet.

Land inventory is recognised at the time a liability is recognised; generally after exchange of unconditional contracts.

Property inventory, which represents all development land and work in progress, is included at cost less any losses foreseen in completing and disposing of the development less any amounts received or receivable as progress payments or part disposals. Where a property is being developed, cost includes cost of acquisition and development to date, including directly attributable fees, expenses and finance charges net of rental or other income attributable to the development. Where development property is not being actively developed, net rental income and finance costs are taken to the income statement.

Assets held for sale
Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets are available for sale in their present condition.

Share capital
The ordinary share capital of the Company is recorded at the proceeds received, net of directly attributable incremental issue costs.

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that an outflow will be required to settle the obligation and the amount can be reliably estimated.

Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

(a) Trade receivables and trade payables
Given the varied activities of the Group it is not practicable to identify a common operating cycle. The Group has therefore allocated receivables and payables due within 12 months of the balance sheet date to current with the remainder included in non-current.

Notes to the consolidated financial statements

continued

1 Significant accounting policies continued

Trade receivables do not carry interest and are stated at their initial value reduced by appropriate allowances for estimated irrecoverable amounts.

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. Bank overdrafts are included within financial liabilities in current liabilities in the balance sheet.

(c) Bank and other borrowings
Interest-bearing bank and other loans 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.

(d) PFI assets
Under the terms of a PFI or similar project, where the risks and rewards of ownership remain largely with the purchaser of the associated services, the Group's interest in the asset is classified as a financial asset and included at its amortised cost within investment in joint ventures.

(e) Derivative financial instruments
Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently remeasured in future periods at their fair value. The method of recognising the resulting change in fair value is dependent on whether the derivative is designated as a hedging instrument and whether the hedging relationship is effective.

For cash flow hedges the effective part of the change in fair value of these derivatives is recognised directly in equity. Any ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled to the income statement in the periods when the hedged items will affect profit or loss. The fair value of interest rate derivatives is the estimated amount that the Group would receive or pay to terminate the derivatives at the balance sheet date.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs.

The Group also enters into forward contracts in order to hedge against transactional foreign currency exposures. In cases where these derivative instruments are significant, hedge accounting is applied as described above. Where hedge accounting is not applied, changes in fair value of derivatives are recognised in the income statement. Fair values are based on quoted market prices at the balance sheet date.

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

a) Revenue and profit recognition
The estimation techniques used for revenue and profit recognition in respect of private housing and land sales, property development and construction contracts.

b) Valuation of land and work in progress
As a result of the values received from a number of land sales during the year to June 2011 the Group conducted a review of land and work in progress and write-downs have been made where the carrying value exceeded the lower of cost and net realisable value. The review was conducted on a site by site basis, using valuations that incorporated selling price reductions, based on the directors' assessment of market conditions existing at June 2011.

The key judgements and estimates in determining the net realisable value of land and work in progress were:

- an estimation of costs to complete;
- an estimation of the remaining revenues; and
- an estimation of selling costs.

These assessments include a degree of inherent uncertainty and therefore if the key judgements and estimates change, further impairments of land and work in progress may be necessary.

c) Determination of fair values of identifiable net assets on acquisitions
The accounting for the Kier Developments Limited acquisition involved identifying and determining the fair values to be assigned to the existing 50% interest in the joint venture, as well as the identifiable assets, liabilities and contingent liabilities acquired and the cost of acquisition. The determination of fair values involved some key judgements and estimates, particularly in relation to the fair value of the property portfolio. The key judgements and estimates made in determining the fair value of the property portfolio were:

- the appropriate yields;
- an estimation of costs to complete;
- assumptions around planning permissions; and
- an estimation of likely rentals, or forecast sales prices.

d) Defined benefit pension scheme valuations
In determining the valuation of defined benefit pension scheme assets and liabilities, a number of key assumptions have been made. The key assumptions, which are given below, are largely dependent on factors outside the control of the Group:

- expected return on plan assets;
- inflation rate;
- mortality;
- discount rate; and
- salary and pension increases.

Details of the assumptions used are included in note 8.

2 Segmental reporting

During the year to 30 June 2011 the Group comprised four divisions: Construction, Services, Property and Homes, and it was on this basis that the Group presented its primary segmental information.

Recognising the reduced scale of the Homes division, the Group combined the predominantly asset-based operations of the Property and Homes divisions on 1 July 2011 into a single Property division.

The revised structure comprises three divisions; Construction, Services and Property, and is the basis on which the Group now reports its primary segmental information. The results for the year to 30 June 2011 have been restated accordingly. Corporate includes unrecovered overheads and the charge for defined benefit pension schemes.

Segment information is based on the information provided to the chief executive who is the chief operating decision maker. The segments are strategic business units with separate management and have different core customers and offer different services. The segments are discussed in the chief executive's review on pages 8 to 15.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies on pages 78 to 82. The Group evaluates segment information on the basis of profit or loss from operations before exceptional items, interest and income tax expense. The segment results that are reported to the chief executive include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Year to 30 June 2012	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,383.5	444.9	240.8	–	2,069.2
Less share of joint ventures	(2.7)	–	(36.0)	–	(38.7)
Group revenue	1,380.8	444.9	204.8	–	2,030.5
Profit					
Group operating profit	35.1	16.7	14.1	(2.9)	63.0
Share of joint ventures' operating profit	0.1	–	1.2	–	1.3
Profit on disposal of joint ventures	–	–	6.7	–	6.7
Group and share of joint ventures	35.2	16.7	22.0	(2.9)	71.0
Share of joint ventures – finance income	–	–	0.2	–	0.2
– tax	–	–	(0.2)	–	(0.2)
Profit from operations before exceptional items	35.2	16.7	22.0	(2.9)	71.0
Exceptional items					
Provision for losses on disposal of the majority of the Plant business	–	(3.2)	–	–	(3.2)
Acquisition costs	–	–	(0.4)	–	(0.4)
Profit from operations	35.2	13.5	21.6	(2.9)	67.4
Finance income/(cost)[2]	12.5	(1.4)	(13.7)	(1.8)	(4.4)
Profit before tax	47.7	12.1	7.9	(4.7)	63.0
Balance sheet					
Total assets excluding cash	376.1	132.9	439.1	49.2	997.3
Liabilities excluding borrowings	(588.3)	(118.1)	(109.5)	(156.0)	(971.9)
Net operating (liabilities)/assets	(212.2)	14.8	329.6	(106.8)	25.4
Cash, net of borrowings	360.6	19.3	(263.4)	12.3	128.8
Net assets	148.4	34.1	66.2	(94.5)	154.2
Other information					
Inter-segmental revenue	23.3	29.8	0.5	–	53.6
Amortisation of intangible assets	–	3.4	–	0.3	3.7
Capital expenditure	14.5	16.3	1.4	8.9	41.1
Depreciation of property, plant and equipment	3.3	8.0	0.1	2.5	13.9

1 Revenue is stated after the exclusion of inter-segmental revenue.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.

Notes to the consolidated financial statements

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2 Segmental reporting continued

Year to 30 June 2011	Construction £m	Services £m	Property £m	Corporate £m	Group £m
Revenue[1]					
Group and share of joint ventures	1,444.5	483.8	250.5	–	2,178.8
Less share of joint ventures	(1.9)	–	(53.9)	–	(55.8)
Group revenue	1,442.6	483.8	196.6	–	2,123.0
Profit					
Group operating profit	39.3	18.3	7.3	(5.2)	59.7
Share of joint ventures' operating profit	–	–	2.1	–	2.1
Profit on disposal of joint ventures	–	–	5.9	–	5.9
Group and share of joint ventures	39.3	18.3	15.3	(5.2)	67.7
Share of joint ventures – finance cost	–	–	(1.4)	–	(1.4)
– tax	–	–	(0.3)	–	(0.3)
Profit from operations before exceptional items	39.3	18.3	13.6	(5.2)	66.0
Exceptional items					
Past service credit on retirement benefit obligation	–	–	–	25.7	25.7
Movement on provision for fine imposed by the Office of Fair Trading	15.6	–	–	–	15.6
Property, land and work in progress write-downs	–	–	(32.9)	(0.6)	(33.5)
Acquisition costs	–	–	(0.6)	(0.2)	(0.8)
Profit from operations	54.9	18.3	(19.9)	19.7	73.0
Finance income/(cost)[2]	15.3	(0.4)	(11.9)	(3.5)	(0.5)
Profit before tax	70.2	17.9	(31.8)	16.2	72.5
Balance sheet					
Total assets excluding cash	332.1	121.5	470.7	25.3	949.6
Liabilities excluding borrowings	(618.2)	(117.2)	(106.3)	(108.5)	(950.2)
Net operating (liabilities)/assets	(286.1)	4.3	364.4	(83.2)	(0.6)
Cash, net of borrowings	422.8	27.8	(293.0)	7.2	164.8
Net assets	136.7	32.1	71.4	(76.0)	164.2
Other information					
Inter-segmental revenue	3.6	35.7	6.1	–	45.4
Amortisation of intangible assets	–	3.4	–	–	3.4
Capital expenditure	9.6	15.7	0.1	3.2	28.6
Depreciation of property, plant and equipment	4.9	6.7	0.2	2.7	14.5

1 Revenue is stated after the exclusion of inter-segmental revenue.
2 Interest was (charged)/credited to the divisions at a notional rate of 4.5% and 4.0% respectively.

Inter-segmental pricing is determined on an arm's length basis.

Net operating assets represent assets excluding cash, bank overdrafts, borrowings and interest-bearing inter-company loans.

3 Profit for the year

Profit before taxation is stated after charging:

	2012 £m	2011 £m
Auditor's remuneration:		
Fees payable to the Company's auditor for the audit of the annual accounts	**0.1**	0.1
Fees payable to the Company's auditor for other services:		
Audit of the Company's subsidiaries, pursuant to legislation	**0.7**	0.7
Other services	**0.1**	0.3
Hire of plant and machinery	**22.4**	20.5
Operating lease rentals:		
Land and buildings	**5.2**	4.1
Plant and machinery	**14.8**	13.0

4 Exceptional items

	2012 £m	2011 £m
Provision for losses on disposal of the majority of the Plant business	**(3.2)**	–
Acquisition costs	**(0.4)**	(0.8)
Past service credit on retirement benefit obligations	**–**	25.7
Movement in provision for fine imposed by the Office of Fair Trading	**–**	15.6
Property, land and work in progress write-downs:		
Land and work in progress held for development	**–**	(32.6)
Property	**–**	(0.9)
	–	(33.5)
Exceptional items before tax	**(3.6)**	7.0
Taxation	**0.8**	2.1
Exceptional items after tax	**(2.8)**	9.1

On 31 July 2012 and 1 August 2012, the Group sold two portfolios of property, plant and equipment for a maximum aggregate consideration of £15.7m. The total impact of these disposals is a loss of £3.2m which has been recorded during the year to 30 June 2012. Further details of these disposals are provided in note 31.

During the year to 30 June 2012 external costs of £0.4m have been incurred and expensed on the acquisition of Biogen (UK) Limited in August 2012 (2011: £0.8m, Beco Limited £0.2m, Kier Developments Limited £0.6m). Further details of these acquisitions are provided in notes 30 and 31.

The pension credit arose as a consequence of the announcement by the UK Government that the inflation index to be used to derive statutory pension increases would be changed from the Retail Prices Index (RPI) to the Consumer Prices Index (CPI). These changes were announced for private sector schemes in July 2010.

The gain of £25.7m in the prior year reflects the impact of this change on the Kier Group Pension Scheme. This change only affects certain elements of the increase in pensions payable by the scheme. Deferred revaluation and the majority of increases to pensions in payment continue to be based on RPI.

Notes to the consolidated financial statements

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4 Exceptional items continued

The credit has been accounted for following the guidance set out in UITF 48 'Accounting implications of the replacement of RPI with CPI for retirement benefits'. As the Group had a pre-existing constructive obligation under the Kier Group Pension Scheme, and the changes from RPI to CPI were notified to scheme members, the past service credit was accounted for as a change in benefits and recognised in the income statement.

On 22 September 2009 the Group was fined £17.9m in respect of The Office of Fair Trading's investigation into cover pricing in the construction industry. An exceptional provision of £18.0m was made in the year ended 30 June 2010 to reflect this potential fine. The Group appealed this fine to the Competition Appeals Tribunal, which on 11 March 2011 announced its decision to reduce the original fine imposed from £17.9m to £1.7m. The exceptional credit in the prior year reflects the write-back of the original provision of £18.0m less the fine paid of £1.7m and the external legal costs of £0.7m.

During the prior year the carrying value of properties, and land and work in progress were written down to their net realisable value as a result of market conditions and following the values received from land sales.

5 Finance income and cost

	2012 £m	2011 £m
Finance income		
Interest receivable on bank deposits	**1.1**	1.3
Interest receivable on loans to joint ventures	**1.5**	2.4
	2.6	3.7
Finance cost		
Interest payable and fees on bank overdrafts and loans	**(1.6)**	(0.7)
Interest payable on borrowings	**(2.0)**	(2.0)
Interest payable on finance lease obligations	**(0.1)**	–
Unwinding of discount on long-term liabilities	**(3.3)**	(1.5)
	(7.0)	(4.2)

6 Information relating to employees

	Note	2012 No.	2011 No.
Average number of persons employed during the year including executive directors was:			
United Kingdom		**10,246**	10,128
Rest of world		**531**	557
		10,777	10,685
		£m	£m
Group staff costs are as follows:			
United Kingdom		**372.8**	373.6
Rest of world		**11.8**	8.4
		384.6	382.0
Comprising:			
Wages and salaries		**334.2**	333.6
Social security costs		**28.2**	28.9
Defined benefit pension scheme costs		**2.3**	4.8
Contributions to defined contribution pension schemes		**16.8**	11.6
Share-based payment plans	25	**3.1**	3.1
		384.6	382.0

7 Information relating to directors

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 64 to 71.

8 Retirement benefit obligations

The Group operates a number of pension schemes for eligible employees as disclosed below.

Kier Group Pension Scheme
This is the principal scheme and includes a defined benefit section and a defined contribution section. The assets of the Scheme are held under trust separately from those of the Group; the Trustees are responsible for investing the assets and delegate day-to-day decisions to independent professional investment managers.

The defined benefit section of the Scheme was closed to new entrants on 1 January 2002; existing members continue to accrue benefits for future service.

An actuarial valuation of the Scheme was undertaken by the trustees' independent actuaries as at 1 April 2010 using the projected unit method. The market value of the Scheme's assets at that date was £622.0m which represented approximately 88% of the benefits that had accrued to members at that date, after allowing for future increases in salaries. The contributions paid during the year were £20.9m (2011: £22.8m) which include special contributions of £11.1m (2011: £12.5m) to fund the past service deficit.

Going forward contributions will include an allowance for funding the past service deficit identified at the 2010 valuation date. The Group expects to pay contributions for future service of £10.5m, being 20.5% of pensionable pay, plus £15.5m for funding the past service deficit in the year to June 2013.

The Pension Protection Fund (PPF) levy is payable in addition to the above contributions.

Following closure of the defined benefit section of the Scheme to new entrants most new employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. The Group is required to pay contributions in respect of those employees in accordance with the rates specified in their contracts of employment. The contributions paid during the year, and the pension charge, amounted to £12.7m.

Kier Sheffield LLP
The Group participates in this defined benefit scheme through its subsidiary Kier Sheffield LLP which has participated as an admitted body in the South Yorkshire Pension Fund since 1 April 2003. As an admitted body it was granted a fully funded past service position at that date, with assets and ongoing past service liabilities of £65.0m.

The scheme covers 1,146 employees who transferred from Sheffield Council's employment to Kier Sheffield LLP upon the start of the contract. New employees are offered membership of the defined contribution section of the Kier Group Pension Scheme. Kier Sheffield LLP is required to pay contributions in respect of these employees in accordance with the rates specified in their contracts of employment.

Kier Sheffield LLP's pension costs in respect of the defined benefit scheme are assessed on the advice of an independent qualified actuary using the projected unit method. The contributions paid during the year were £2.2m (2011: £1.3m). Going forward Kier Sheffield LLP expects to pay contributions for future service at the rate of 11.3% of pensionable pay which the fund's actuary has determined is sufficient to meet ongoing benefits.

Other schemes
Contributions are also made in respect of hourly paid operatives to an industry-wide stakeholder pension scheme, and in respect of employees who are members of a local government pension scheme. The pension costs for these have been taken as the actual contributions paid during the year.

Notes to the consolidated financial statements

continued

8 Retirement benefit obligations continued

IAS 19 'Employee Benefits' disclosures
Kier has adopted immediate recognition of any actuarial gains or losses through the statement of comprehensive income as permitted under IAS 19.

The principal assumptions used by the independent qualified actuaries and the expected rate of return on assets in providing the IAS 19 position as detailed below were:

Kier Group Pension Scheme

	2012 %	2011 %	2010 %
Rate of general increases in salaries	**2.8**	3.4	3.0
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.8**	3.4	3.1
Discount rate	**4.7**	5.5	5.3
Inflation rate (RPI)	**3.0**	3.6	3.2
Inflation rate (CPI)	**2.0**	2.7	n/a

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 29.1 years and 29.6 years respectively for a future pensioner.

	Long-term rate of return expected			Value		
	2012 %	2011 %	2010 %	2012 £m	2011 £m	2010 £m
Land				**13.8**	13.8	13.8
Equities, property and other return-seeking assets				**513.2**	527.6	477.1
PFI assets				**7.6**	4.5	–
Government bonds, cash, swaps and collateral				**187.3**	134.3	120.3
Total market value of assets	**6.7**	7.0	6.8	**721.9**	680.2	611.2
Present value of liabilities				**(780.9)**	(711.3)	(689.8)
Deficit				**(59.0)**	(31.1)	(78.6)
Related deferred tax asset				**14.2**	8.1	22.0
Net pension liability				**(44.8)**	(23.0)	(56.6)

Kier Sheffield LLP

	2012 %	2011 %	2010 %
Rate of general increases in salaries	**4.0**	4.6	4.2
Rate of increase to pensions in payment liable for Limited Price Indexation	**2.0**	2.7	2.5
Discount rate	**4.7**	5.5	5.3
Inflation rate (RPI)	**3.0**	3.6	3.2
Inflation rate (CPI)	**2.0**	2.7	2.5

The mortality assumptions adopted estimate life expectancies from age 60 for men and women of 27.6 years and 30.7 years respectively for a future pensioner.

	Long-term rate of return expected			Value		
	2012 %	2011 %	2010 %	2012 £m	2011 £m	2010 £m
Equities and property				**120.7**	120.9	99.6
Corporate bonds				**13.0**	11.2	11.1
Government bonds				**27.5**	27.4	24.4
Total market value of assets	**6.6**	7.0	6.7	**161.2**	159.5	135.1
Present value of liabilities				**(160.0)**	(158.0)	(143.7)
Surplus/(deficit)				**1.2**	1.5	(8.6)
Related deferred tax (liability)/asset				**(0.3)**	(0.4)	2.4
Net pension asset/(liability)				**0.9**	1.1	(6.2)

8 Retirement benefit obligations continued

Pension sensitivity

The assumption considered to be the most significant is the discount rate adopted. If the discount rate were to increase by 0.1% the Kier Group Pension Scheme deficit would decrease by £13.2m, and the Kier Sheffield LLP surplus would increase by £3.1m.

Amounts recognised in the financial statements in respect of these defined benefit schemes are as follows:

			2012			2011
	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m	Kier Group Pension Scheme £m	Kier Sheffield LLP £m	Total £m
(Charged)/credited to operating profit in the income statement						
Current service cost	**(9.5)**	**(3.2)**	**(12.7)**	(8.4)	(2.7)	(11.1)
Expected return on scheme assets	**46.7**	**11.0**	**57.7**	41.0	9.0	50.0
Interest cost on scheme liabilities	**(38.6)**	**(8.7)**	**(47.3)**	(36.1)	(7.6)	(43.7)
Past service credit	**–**	**–**	**–**	25.7	–	25.7
	(1.4)	**(0.9)**	**(2.3)**	22.2	(1.3)	20.9
Amount recognised in statement of comprehensive income						
Actual return less expected return on scheme assets	**2.1**	**(8.2)**	**(6.1)**	31.1	15.9	47.0
Experience gains and losses on scheme liabilities	**(49.5)**	**6.6**	**(42.9)**	(28.6)	(5.8)	(34.4)
	(47.4)	**(1.6)**	**(49.0)**	2.5	10.1	12.6
Changes in the fair value of scheme assets						
Fair value at 1 July	**680.2**	**159.5**	**839.7**	611.2	135.1	746.3
Expected return on scheme assets	**46.7**	**11.0**	**57.7**	41.0	9.0	50.0
Actual return less expected return on scheme assets	**2.1**	**(8.2)**	**(6.1)**	31.1	15.9	47.0
Contributions by the employer	**20.9**	**2.2**	**23.1**	22.8	1.3	24.1
Contributions by scheme participants	**1.1**	**1.1**	**2.2**	0.1	1.3	1.4
Net benefits paid out	**(29.1)**	**(4.4)**	**(33.5)**	(26.0)	(3.1)	(29.1)
Fair value at 30 June	**721.9**	**161.2**	**883.1**	680.2	159.5	839.7
Changes in the present value of the defined benefit obligation						
Fair value at 1 July	**(711.3)**	**(158.0)**	**(869.3)**	(689.8)	(143.7)	(833.5)
Current service cost	**(9.5)**	**(3.2)**	**(12.7)**	(8.4)	(2.7)	(11.1)
Interest cost on scheme liabilities	**(38.6)**	**(8.7)**	**(47.3)**	(36.1)	(7.6)	(43.7)
Past service credits	**–**	**–**	**–**	25.7	–	25.7
Experience gains and losses on scheme liabilities	**(49.5)**	**6.6**	**(42.9)**	(28.6)	(5.8)	(34.4)
Contributions by scheme participants	**(1.1)**	**(1.1)**	**(2.2)**	(0.1)	(1.3)	(1.4)
Net benefits paid out	**29.1**	**4.4**	**33.5**	26.0	3.1	29.1
Fair value at 30 June	**(780.9)**	**(160.0)**	**(940.9)**	(711.3)	(158.0)	(869.3)
Amounts included in the balance sheet						
Fair value of scheme assets	**721.9**	**161.2**	**883.1**	680.2	159.5	839.7
Net present value of the defined benefit obligation	**(780.9)**	**(160.0)**	**(940.9)**	(711.3)	(158.0)	(869.3)
Net (deficit)/surplus	**(59.0)**	**1.2**	**(57.8)**	(31.1)	1.5	(29.6)
Related deferred tax asset/(liability)	**14.2**	**(0.3)**	**13.9**	8.1	(0.4)	7.7
Net pension (liability)/asset	**(44.8)**	**0.9**	**(43.9)**	(23.0)	1.1	(21.9)

Notes to the consolidated financial statements

continued

8 Retirement benefit obligations continued

History of experience gains and losses for defined benefit schemes in aggregate:

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Fair value of scheme assets	**883.1**	839.7	746.3	614.5	669.4
Net present value of the defined benefit obligation	**(940.9)**	(869.3)	(833.5)	(729.2)	(716.1)
Net deficit	**(57.8)**	(29.6)	(87.2)	(114.7)	(46.7)
Related deferred tax asset	**13.9**	7.7	24.4	32.1	13.1
Net pension liability	**(43.9)**	(21.9)	(62.8)	(82.6)	(33.6)
Difference between expected and actual return on scheme assets	**(6.1)**	47.0	82.8	(103.3)	(15.5)
Experience gains and losses on scheme liabilities	**(42.9)**	(34.4)	(93.0)	0.1	18.1

The Group has made the following special cash contributions to the Kier Group Pension Scheme:

- in June 2011 £4.5m which was settled through the transfer of the Group's 50% interest in Sheffield Schools PFI project (Academy Services (Sheffield) Holdings Limited); and
- in December 2011 £3.1m which was settled through the transfer of the Group's 50% interest in Hinchingbrooke Hospital PFI project (Prospect Healthcare Hinchingbrooke) Holdings Limited.

These amounts have been included as contributions received by the Scheme.

The past service credit arose due to changes announced by the Government to use the CPI in place of the RPI to determine pension increases. This was accounted for as a change in benefits and recognised in the income statement as an exceptional credit. Further details of this credit are provided in note 4.

9 Taxation

a) Recognised in the income statement

	2012			2011		
	Before exceptional items £m	Exceptional items £m	Total £m	Before exceptional items £m	Exceptional items £m	Total £m
Current tax expense						
UK corporation tax	**1.3**	**–**	**1.3**	13.0	(5.8)	7.2
Overseas tax	**–**	**–**	**–**	(0.1)	–	(0.1)
Adjustments for prior years	**(6.9)**	**–**	**(6.9)**	0.5	–	0.5
Total current tax	**(5.6)**	**–**	**(5.6)**	13.4	(5.8)	7.6
Deferred tax expense						
Origination and reversal of temporary differences	**15.1**	**(0.8)**	**14.3**	2.8	3.7	6.5
Effect of change in tax rate	**(1.8)**	**–**	**(1.8)**	(1.8)	–	(1.8)
Adjustments in respect of prior years	**0.8**	**–**	**0.8**	(2.1)	–	(2.1)
Total deferred tax	**14.1**	**(0.8)**	**13.3**	(1.1)	3.7	2.6
Total tax charge/(credit) in the income statement	**8.5**	**(0.8)**	**7.7**	12.3	(2.1)	10.2
Reconciliation of effective tax rate						
Profit before tax	**66.6**	**(3.6)**	**63.0**	65.5	7.0	72.5
Adjust: tax on joint ventures included above	**0.2**	**–**	**0.2**	0.3	–	0.3
Adjusted profit before tax	**66.8**	**(3.6)**	**63.2**	65.8	7.0	72.8
Income tax at UK corporation tax rate of 25.5% (2011: 27.5%)	**17.0**	**(0.9)**	**16.1**	18.1	1.9	20.0
Non-deductible expenses	**0.7**	**0.1**	**0.8**	0.7	(4.0)	(3.3)
Effect of change in tax rate	**(1.8)**	**–**	**(1.8)**	(1.8)	–	(1.8)
Capital gains not taxed	**(1.1)**	**–**	**(1.1)**	(2.3)	–	(2.3)
Tax relief on expenses not recognised in the income statement	**–**	**–**	**–**	(0.4)	–	(0.4)
Effect of tax rates in foreign jurisdictions	**–**	**–**	**–**	(0.1)	–	(0.1)
Adjustments in respect of prior years	**(6.1)**	**–**	**(6.1)**	(1.6)	–	(1.6)
Total tax (including joint ventures)	**8.7**	**(0.8)**	**7.9**	12.6	(2.1)	10.5
Tax on joint ventures	**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Group tax charge/(credit)	**8.5**	**(0.8)**	**7.7**	12.3	(2.1)	10.2

Notes to the consolidated financial statements

continued

9 Taxation continued

b) Recognised in the statement of comprehensive income

	2012 £m	2011 £m
Deferred tax expense (including effect of change in tax rate)		
Fair value movements on cash flow hedging instruments:		
Joint ventures	**(2.3)**	1.7
Actuarial (losses)/gains on defined benefit pension schemes	**(7.5)**	7.8
Total tax (credit)/charge in the statement of comprehensive income	**(9.8)**	9.5

c) Factors that may affect future tax charges

The Chancellor has announced that the UK corporation tax rate will reduce from 26% to 22% over a period of three years by April 2014. The first reduction from 26% to 24% was substantively enacted on 26 March 2012 and is effective from 1 April 2012.

This has had the effect of reducing the net deferred tax asset included in the above figures by £3.7m, with £1.8m being credited to the income statement and £5.5m being charged directly to the statement of comprehensive income.

The reduction in the UK corporation tax rate from 24% to 23% was substantively enacted on 3 July 2012 and is effective from 1 April 2013. This will reduce the Group's future tax charge accordingly.

If the rate change from 24% to 23% had been substantively enacted at 30 June 2012 it would have had the effect of reducing the net deferred tax asset of £29.1m (Group £27.9m asset, joint ventures £1.2m asset) held at this date by £1.9m, with £1.0m being credited to the income statement and £2.9m being charged directly to the statement of comprehensive income.

It has not been possible to quantify the full anticipated effect of the further 1% rate reduction, although this will further reduce the Group's future tax charge and reduce the deferred tax assets accordingly.

d) Tax losses

At the balance sheet date the Group has unused income tax losses of £10.0m (2011: £10.9m) available for offset against future profits. A deferred tax asset has been recognised in respect of £9.3m (2011: £8.4m) of these losses. No deferred tax asset has been recognised in respect of the remaining losses, due to the unpredictability of future profit streams against which these losses could be offset. Under present tax legislation, these losses may be carried forward indefinitely.

10 Dividends

Amounts recognised as distributions to equity holders in the year:

	2012 £m	2011 £m
Final dividend for the year ended 30 June 2011 of 44.0 pence (2010: 39.5 pence)	**16.6**	14.6
Interim dividend for the year ended 30 June 2012 of 21.5 pence (2011: 20.0 pence)	**8.2**	7.5
	24.8	22.1

The proposed final dividend of 44.5 pence (2011: 44.0 pence) bringing the total dividend for the year to 66.0 pence (2011: 64.0 pence) had not been approved at the balance sheet date and so has not been included as a liability in these financial statements. The dividend totalling £17.4m will be paid on 28 November 2012 to shareholders on the register at the close of business on 21 September 2012. A scrip dividend alternative will be offered.

11 Earnings per share

A reconciliation of profit and earnings per share, as reported in the income statement, to adjusted profit and earnings per share is set out below. The adjustments are made to illustrate the impact of exceptional items and the amortisation of intangible assets relating to contract rights.

	2012		2011	
	Basic £m	**Diluted £m**	Basic £m	Diluted £m
Earnings (after tax and minority interests), being net profits attributable to equity holders of the parent	**54.2**	**54.2**	61.8	61.8
Exclude: exceptional items	**3.6**	**3.6**	(7.0)	(7.0)
Tax thereon	**(0.8)**	**(0.8)**	(2.1)	(2.1)
Earnings excluding exceptional items	**57.0**	**57.0**	52.7	52.7
Add: amortisation of intangible assets relating to contract rights	**3.4**	**3.4**	3.4	3.4
Less: tax thereon	**(0.8)**	**(0.8)**	(0.9)	(0.9)
Adjusted earnings	**59.6**	**59.6**	55.2	55.2
	million	**million**	million	million
Weighted average number of shares	**38.0**	**38.0**	37.2	37.2
Weighted average impact of LTIP and Sharesave Scheme	**–**	**0.7**	–	0.5
Weighted average number of shares used for earnings per share	**38.0**	**38.7**	37.2	37.7
	pence	**pence**	pence	pence
Earnings per share	**142.6**	**140.1**	166.1	163.9
Earnings per share (excluding exceptional items)	**150.0**	**147.3**	141.7	139.8
Adjusted earnings per share (excluding exceptional items and the amortisation of intangible assets relating to contract rights)	**156.8**	**154.0**	148.4	146.4

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12 Intangible assets

	Goodwill £m	Building maintenance contract rights £m	Other contract rights £m	Computer software £m	Total £m
Cost					
At 1 July 2011	13.4	29.1	3.3	–	**45.8**
Additions	–	–	–	4.5	**4.5**
Acquired on acquisitions	–	–	1.0	–	**1.0**
At 30 June 2012	**13.4**	**29.1**	**4.3**	**4.5**	**51.3**
Amortisation					
At 1 July 2011	–	18.5	0.3	–	**18.8**
Charge for the year	–	3.1	0.3	0.3	**3.7**
At 30 June 2012	**–**	**21.6**	**0.6**	**0.3**	**22.5**
Net book value					
At 30 June 2012	**13.4**	**7.5**	**3.7**	**4.2**	**28.8**
At 30 June 2011	13.4	10.6	3.0	–	27.0
Cost					
At 1 July 2010	10.7	29.1	3.3	–	43.1
Acquired on acquisitions	2.7	–	–	–	2.7
At 30 June 2011	13.4	29.1	3.3	–	45.8
Amortisation					
At 1 July 2010	–	15.4	–	–	15.4
Charge for the year	–	3.1	0.3	–	3.4
At 30 June 2011	–	18.5	0.3	–	18.8
Net book value					
At 30 June 2011	13.4	10.6	3.0	–	27.0
At 30 June 2010	10.7	13.7	3.3	–	27.7

Goodwill relates to the acquisition of Kier Partnership Homes Limited (£5.2m), Kent LEP (£0.7m), Pure Recycling Limited (£4.8m), Beco Limited (£2.6m) and Kier Developments Limited (£0.1m). These balances have been subject to an annual impairment review based upon projected profits of each business.

Building maintenance contract rights relate to the acquisition by the Group of the business and assets of the construction and building services operations of Sheffield City Council (£19.9m), Harlow Council (£0.8m), Stoke-on-Trent City Council (£1.9m) and North Tyneside Council (£6.5m). These are being amortised on a straight-line basis over the remaining lives of the contracts. These contracts are in partnership with the respective councils who have retained a participatory ownership interest and the rights for a minority share of the profits. These profit shares are reflected in the income statement as attributable to minority interests. The amounts for the year to June 2012 are: Sheffield City Council £nil (2011: £nil), Harlow Council £0.5m (2011: £0.2m), Stoke-on-Trent City Council £0.5m (2011: £0.2m) and North Tyneside Council £0.1m (2011: £0.1m).

Other contract rights relate to the acquisition of the Kent LEP (£1.3m), Pure Recycling Limited (£2.0m) and Stewart Milne (£1.0m). These balances are being amortised on a straight-line basis over the lives of the contracts.

13 Property, plant and equipment

	Land and buildings £m	Plant, vehicles and fixtures owned £m	Plant, vehicles and fixtures leased £m	Mining assets £m	Total £m
Cost					
At 1 July 2011	44.0	115.2	–	31.4	**190.6**
Additions	9.3	9.7	9.1	13.0	**41.1**
Disposals	(1.8)	(12.0)	–	–	**(13.8)**
Transferred to assets held for sale	–	(35.1)	–	–	**(35.1)**
Currency realignment	–	0.1	–	–	**0.1**
At 30 June 2012	**51.5**	**77.9**	**9.1**	**44.4**	**182.9**
Accumulated depreciation					
At 1 July 2011	4.9	67.7	–	22.0	**94.6**
Charge for the year	0.7	11.2	0.5	1.5	**13.9**
Disposals	(1.0)	(8.3)	–	–	**(9.3)**
Transferred to assets held for sale	–	(19.2)	–	–	**(19.2)**
Currency realignment	–	0.1	–	–	**0.1**
At 30 June 2012	**4.6**	**51.5**	**0.5**	**23.5**	**80.1**
Net book value					
At 30 June 2012	**46.9**	**26.4**	**8.6**	**20.9**	**102.8**
At 30 June 2011	39.1	47.5	–	9.4	96.0
Cost					
At 1 July 2010	42.6	106.7	–	23.3	172.6
Acquired on acquisitions	9.0	0.1	–	–	9.1
Additions	2.0	18.5	–	8.1	28.6
Disposals	(9.6)	(9.7)	–	–	(19.3)
Currency realignment	–	(0.4)	–	–	(0.4)
At 30 June 2011	44.0	115.2	–	31.4	190.6
Accumulated depreciation			–		
At 1 July 2010	3.5	65.1	–	19.6	88.2
Charge for the year	0.8	11.3	–	2.4	14.5
Disposals	(0.3)	(8.5)	–	–	(8.8)
Write-downs	0.9	–	–	–	0.9
Currency realignment	–	(0.2)	–	–	(0.2)
At 30 June 2011	4.9	67.7	–	22.0	94.6
Net book value					
At 30 June 2011	39.1	47.5	–	9.4	96.0
At 30 June 2010	39.1	41.6	–	3.7	84.4

Notes to the consolidated financial statements

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14 Investment in joint ventures

a) Movements in year

	2012 £m	2011 £m
Investment in joint ventures		
At 1 July	**9.1**	23.9
Additions	**7.5**	6.8
Loan repayments	**(0.6)**	–
Disposals	**(1.1)**	(25.6)
Share of trading results after taxation	**1.3**	0.4
Net (expense)/income recognised directly in equity	**(10.7)**	5.4
Deferred tax on items recognised directly in equity	**2.3**	(1.7)
Dividends received	**(0.3)**	(0.1)
At 30 June	**7.5**	9.1

b) Analysis of investment

	2012 Total £m	2011 Total £m
Investment in joint ventures		
Property, plant and equipment	**3.5**	3.0
Deferred tax assets	**5.0**	2.8
Other non-current assets	**157.8**	167.0
Current assets	**32.0**	28.0
Gross assets	**198.3**	200.8
Payables – current	**(13.0)**	(14.4)
Long-term borrowings	**(169.3)**	(174.7)
Financial instruments	**(21.0)**	(10.3)
Deferred tax liabilities	**(3.8)**	(6.9)
Net external liabilities	**(8.8)**	(5.5)
Loans provided to joint ventures	**16.3**	14.6
Total investment in joint ventures	**7.5**	9.1

The Group has provided a guarantee of £12.5m to support a £25.0m borrowing facility of a joint venture, Solum Regeneration LP. Borrowings of £11.3m were outstanding on this facility at 30 June 2012. Other than as disclosed above the liabilities of the joint ventures are without recourse to the Group. Details of the Group's interests in joint ventures are given on page 115.

15 Deferred tax

The following are the major deferred tax assets and liabilities recognised by the Group and movements thereon during the current and prior reporting year.

	Intangible assets £m	Property, plant and equipment £m	Short-term temporary differences £m	Retirement benefit obligations £m	Tax losses £m	Total £m
At 1 July 2010	(0.9)	(1.1)	(1.2)	24.4	–	**21.2**
Acquired on acquisitions	–	–	20.0	–	2.2	**22.2**
(Charge)/credit to income	0.1	0.6	5.6	(8.9)	–	**(2.6)**
Charge direct to comprehensive income	–	–	–	(7.8)	–	**(7.8)**
Share-based payments charged to equity	–	–	1.0	–	–	**1.0**
At 30 June 2011	(0.8)	(0.5)	25.4	7.7	2.2	**34.0**
(Charge)/credit to income	0.1	0.8	(12.9)	(1.3)	–	**(13.3)**
Credit direct to comprehensive income	–	–	–	7.5	–	**7.5**
Share-based payments charged to equity	–	–	(0.3)	–	–	**(0.3)**
At 30 June 2012	**(0.7)**	**0.3**	**12.2**	**13.9**	**2.2**	**27.9**

Deferred tax assets and liabilities are attributed to temporary differences relating to the following:

	Assets		Liabilities		Net	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Intangible assets	**–**	–	**(0.7)**	(0.8)	**(0.7)**	(0.8)
Property, plant and equipment	**3.7**	3.8	**(3.4)**	(4.3)	**0.3**	(0.5)
Inventories	**8.6**	19.1	**–**	–	**8.6**	19.1
Payables	**12.7**	19.7	**(12.3)**	(16.0)	**0.4**	3.7
Retirement benefit obligations	**14.2**	8.1	**(0.3)**	(0.4)	**13.9**	7.7
Share-based payments	**3.2**	2.6	**–**	–	**3.2**	2.6
Tax losses	**2.2**	2.2	**–**	–	**2.2**	2.2
Total	**44.6**	55.5	**(16.7)**	(21.5)	**27.9**	34.0
Set-off tax	**(16.4)**	(21.1)	**16.4**	21.1	**–**	–
Net tax assets/(liabilities)	**28.2**	34.4	**(0.3)**	(0.4)	**27.9**	34.0

16 Inventories

	2012 £m	2011 £m
Raw materials and consumables	**5.8**	4.8
Construction contracts in progress	**39.3**	38.2
Land and work in progress held for development	**342.1**	379.1
Other work in progress	**7.5**	8.8
	394.7	430.9

Land and work in progress held for development at 30 June 2012 is shown after making a write-down of £32.6m in the prior year to reduce the values on certain sites to net realisable value.

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17 Construction contracts

Contracts in progress at the balance sheet date comprise contract costs incurred plus recognised profits less losses of £7,989.7m (2011: £7,202.5m), less progress billings received and receivable of £8,065.0m (2011: £7,317.0m).

The net balance is analysed into assets and liabilities as follows:

	2012 £m	2011 £m
Inventories	**39.3**	38.2
Trade and other payables	**(114.6)**	(152.7)
	(75.3)	(114.5)

18 Trade and other receivables

	2012 £m	2011 £m
Current:		
Trade receivables	**280.2**	233.8
Construction contract retentions	**43.2**	44.2
Amounts receivable from joint ventures	**0.3**	2.0
Other receivables	**25.2**	22.2
Prepayments and accrued income	**28.6**	27.7
	377.5	329.9
Non-current:		
Construction contract retentions	**19.6**	17.6
Other receivables	**13.3**	–
	32.9	17.6

19 Assets held for sale

	2012 £m	2011 £m
Assets held for sale	**13.0**	–

At 30 June 2012, assets held for sale comprised property, plant and equipment of £13.0m. This represents the fair value less provision for disposal costs of two portfolios of assets sold in July and August 2012. Further details of these disposals are provided in note 31.

20 Cash, cash equivalents and borrowings

This note provides information about the contractual terms of the Group's bank balances, interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 27.

	2012 £m	2011 £m
Bank balances and cash in hand	**137.5**	144.4
Bank deposits with a maturity of less than three months	**21.6**	50.7
Cash and cash equivalents	**159.1**	195.1
Borrowings	**(30.3)**	(30.3)
Net funds in the statement of cash flows	**128.8**	164.8

Borrowings comprise a ten-year private placement of loan notes made in February 2003. The borrowings are unsecured and fixed at an interest rate of 6.4% per annum for ten years. Further information on these borrowings is detailed in note 27.

Cash and cash equivalents include £27.1m (2011: £19.8m) being the Group's share of cash and cash equivalents held by joint arrangements and £57.6m (2011: £52.8m) of cash that cannot be offset against other Group bank balances.

21 Finance lease obligations

	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
At 1 July 2011	–	–	**–**
New obligations	10.2	1.1	**9.1**
Repayments	(0.6)	(0.1)	**(0.5)**
At 30 June 2012	**9.6**	**1.0**	**8.6**

Finance lease liabilities are payable as follows:

	Future minimum lease payments £m	Interest £m	Present value of minimum lease payments £m
Less than one year	1.6	0.3	**1.3**
Between two and five years	6.1	0.6	**5.5**
Over five years	1.9	0.1	**1.8**
At 30 June 2012	**9.6**	**1.0**	**8.6**

22 Trade and other payables

	2012 £m	2011 £m
Current:		
Payments received on account	**4.0**	2.0
Trade payables	**541.5**	518.8
Construction contract balances	**114.6**	152.7
Deferred consideration on acquisitions	**32.2**	2.4
Other taxation and social security costs	**24.2**	26.4
Other payables	**15.2**	12.7
Accruals and deferred income	**84.9**	84.2
	816.6	799.2
Non-current:		
Trade payables	**8.9**	7.1
Deferred considerations on acquisitions	**26.5**	57.8
Accruals and deferred income	**1.8**	3.4
	37.2	68.3

23 Provisions

	Insurance claims £m	Restoration of mining sites £m	Other provisions £m	Total £m
At 1 July 2011	18.1	7.3	25.8	**51.2**
Reversed	–	–	(0.4)	**(0.4)**
Utilised	(5.1)	(0.1)	(13.4)	**(18.6)**
Unwinding of discount	–	1.0	–	**1.0**
Additions	6.6	5.5	4.3	**16.4**
At 30 June 2012	**19.6**	**13.7**	**16.3**	**49.6**

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23 Provisions continued

Due to the nature of the provision for insurance claims, the timing of any potential future outflows in respect of these liabilities is uncertain.

Future outflows in respect of the restoration of mining sites are expected to occur over the next five years.

It is anticipated that the amounts provided will be utilised as follows:

	2012 £m	2011 £m
Due within one year	**1.8**	10.0
Due after one year	**47.8**	41.2
	49.6	51.2

24 Share capital and reserves

Share capital
The share capital of the Company comprises:

	2012		2011	
	Number	£m	Number	£m
Issued and fully paid shares of 1p each	**38,823,184**	**0.4**	38,160,025	0.4

During the year 663,159 ordinary shares were issued at a total premium of £8,069,000, of which 626,037 were issued as a scrip dividend alternative at a premium of £7,771,000 and 37,122 were issued under the Sharesave Scheme at a premium of £298,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Cash flow hedge reserve
This reserve comprises the effective portion of the cumulative net change in the fair value of the cash flow hedging instruments related to hedged transactions that have not yet occurred, together with any related deferred taxation.

Translation reserve
This reserve comprises the cumulative difference on exchange arising from the retranslation of net investments in overseas subsidiary undertakings. In accordance with the transitional provisions of IFRS 1 this reserve was set to nil at July 2004.

25 Share-based payments

Options and awards over the Company's ordinary shares at 30 June 2012 were as follows:

	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	Sharesave Scheme	LTIP 2010 award	LTIP 2011 award	LTIP 2012 award	Total
Date of grant	17 April 2009	30 April 2010	28 April 2011	27 April 2012	13 October 2009	15 November 2010	17 November 2011	
Awards outstanding at 30 June 2012								
– directors	3,660	–	784	2,571	58,197	111,325	105,985	**282,522**
– employees	914,124	209,916	227,103	658,090	220,517	481,750	489,160	**3,200,660**
	917,784	**209,916**	**227,887**	**660,661**	**278,714**	**593,075**	**595,145**	**3,483,182**

Sharesave Scheme
Options were granted on 27 April 2012 at an exercise price of 1,050p. These are exercisable at the holders' discretion from 1 July 2015 until 1 January 2016.

25 Share-based payments continued

LTIP
Awards made under the 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.

The awards which are taken as shares are intended to be satisfied from the following shares held by the Kier Group 1999 Employee Benefit Trust rather than from the issue of new shares. These shares are accounted for as a deduction from retained earnings.

	Number of shares	**2012 £m**	Number of shares	2011 £m
At 1 July	**522,664**	**9.2**	522,664	9.2
Acquired during the year	**89,825**	**0.9**	–	–
Issued in satisfaction of awards	**–**	**–**	–	–
At 30 June	**612,489**	**10.1**	522,664	9.2

The market value of these shares at 30 June 2012 was £7.7m. The dividends on these shares have been waived.

A description of these schemes and the terms and conditions of each scheme are included in the directors' remuneration report on pages 64 to 71.

Value of share schemes
The fair value per option granted has been calculated using the following assumptions. These calculations are based on the Black-Scholes model for all options apart from the TSR element of the LTIP which is based on a stochastic model.

	Sharesave Scheme	**Sharesave Scheme**	**Sharesave Scheme**	**Sharesave Scheme**	**LTIP 2010 award**	**LTIP 2011 award (EPS element)**	**LTIP 2011 award (TSR element)**	**LTIP 2012 award (EPS element)**	**LTIP 2012 award (TSR element)**
Date of grant	17 April 2009	30 April 2010	28 April 2011	27 April 2012	13 October 2009	15 November 2010	15 November 2010	17 November 2011	17 November 2011
Share price at grant	907p	1,140p	1,330p	1,172p	1,055p	1,271p	1,271p	1,398p	1,398p
Exercise price	750p	1,025p	1,150p	1,050p	nil	nil	nil	nil	nil
Option life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Expected volatility	42.1%	42.4%	38.5%	32.8%	N/A	N/A	41.3%	N/A	31.6%
Dividend yield	6.1%	4.9%	4.5%	5.6%	5.1%	4.6%	4.6%	4.6%	4.6%
Risk-free interest rate	2.2%	1.7%	1.6%	0.7%	N/A	N/A	1.2%	N/A	0.7%
Value per option	237.0p	291.0p	325.0p	209.7p	928.0p	1,108.5p	684.1p	1.218.5p	868.9p

The value per option represents the fair value of the option less the consideration payable.

The fair value of the TSR element incorporates an assessment of the number of shares that will be awarded, as the performance conditions are market conditions under IFRS 2 'Share-based payments'.

The performance conditions of the EPS element are non-market conditions under IFRS 2. The fair value therefore does not include an assessment of the number of shares that will be awarded. Instead the amount charged for this element is based on the fair value factored by a 'true-up' for the number of awards that are expected to vest.

The expected volatility is based on historical volatility over the last three years. The risk-free rate of return is the yield on zero-coupon UK Government bonds of a term consistent with the assumed option life.

Notes to the consolidated financial statements

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25 Share-based payments continued

The total charge for the year relating to share-based payment plans was:

	2012 £m	2011 £m
Equity-settled	**2.9**	2.7
Cash-settled including employer's national insurance	**0.2**	0.4
Total charge recognised as employee costs	**3.1**	3.1

Included in other payables is an amount of £0.8m (2011: £0.6m) relating to provisions for employer's national insurance and cash-settled share-based payments.

A reconciliation of option movements is shown below:

	2012		2011	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at 1 July	**2,917,885**	**490.6p**	2,351,826	529.0p
Forfeited	**(681,088)**	**350.4p**	(329,306)	342.5p
Exercised	**(37,122)**	**803.2p**	(21,585)	762.1p
Granted	**1,283,507**	**542.5p**	916,950	345.2p
Outstanding at 30 June	**3,483,182**	**533.8p**	2,917,885	490.6p
Exercisable at 30 June	**–**	**–**	–	–

The options outstanding at 30 June 2012 have a weighted average contractual life of 1.7 years (2011: 1.7 years).

26 Guarantees and contingent liabilities

There are contingent liabilities in respect of performance bonds, guarantees and claims under contracting and other arrangements, including joint arrangements and joint ventures, entered into in the normal course of business.

27 Financial instruments

Capital risk management

The Group and Company manage their capital to ensure their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the Group and Company comprises: equity attributable to equity holders of Kier Group plc, consisting of issued share capital; reserves and retained earnings as disclosed in the consolidated statement of changes in equity; and cash, cash equivalents and borrowings as disclosed in note 20.

The Group and Company maintain or adjust their capital structure through the payment of dividends to shareholders, issue of new shares and issuing or repaying borrowings. The Group's policy is to carry no significant debt, other than the non-recourse debt of joint ventures engaged in commercial property and PFI projects.

The Group's overall capital risk management strategy remains unchanged from 2011.

27 Financial instruments continued

Financial risk management

Financial risk management is an integral part of the way the Group is managed. In the course of its business, the Group is exposed primarily to credit risk, market risk and liquidity risk. The overall aim of the Group's financial risk management policies is to minimise potential adverse effects on financial performance and net assets.

The Group's treasury department manages the principal financial risks within policies and operating parameters approved by the Board. Treasury is not a profit centre and does not enter into speculative transactions. Derivative financial instruments are used to hedge exposure to fluctuations in interest and exchange rates.

Credit risk

Credit risk arises on financial instruments such as trade receivables, short-term bank deposits and interest rate and currency hedges.

Policies and procedures exist to ensure that customers have an appropriate credit history.

Short-term bank deposits and hedging transactions are executed only with highly credit-rated authorised counterparties based on ratings issued by the major ratings agencies. Counterparty exposure positions are monitored regularly so that credit exposures to any one counterparty are within predetermined limits. At the balance sheet date there were no significant concentrations of credit risk.

Trade and other receivables included in the balance sheet are stated net of a bad debt provision which has been estimated by management following a review of individual receivable accounts. There is no Group-wide rate of provision, and provision made for debts that are overdue is based on prior default experience and known factors at the balance sheet date. Receivables are written off against the bad debt provision when management considers that the debt is no longer recoverable.

An analysis of the provision held against trade receivables is set out below.

	2012 £m	2011 £m
Provision as at 1 July	**5.4**	7.4
Increase in provision during the year	**0.1**	0.2
Provision utilised during the year	**–**	(0.1)
Provision released during the year	**(4.3)**	(2.1)
Provision as at 30 June	**1.2**	5.4

There are £41.4m (2011: £50.7m) of trade receivables that were overdue at the balance sheet date that have not been provided against, of which £29.9m (2011: £35.6m) had been received by the end of August 2012. There are no indications as at 30 June 2012 that the debtors will not meet their payment obligations in respect of the amount of trade receivables recognised in the balance sheet that are overdue and unprovided. The proportion of trade receivables at 30 June 2012 that were overdue for payment was 15% (2011: 22%). Credit terms vary across the Group; the average age of trade receivables was as follows:

Construction 54 days (2011: 43 days)
Services 37 days (2011: 25 days).

Overall, the Group considers that it is not exposed to a significant amount of credit risk.

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27 Financial instruments continued

Market risk

Interest rate risk

The Group has mitigated part of its exposure to interest rate movements through a private placement of £30.3m of loan notes for ten years from February 2003, which bears interest on a fixed rate basis at 6.4% p.a. The Group has bank deposits which are subject to floating rates of interest linked to the UK base rate. The Group has borrowing facilities to finance short-term working capital requirements. Such borrowings are subject to floating rates of interest linked to LIBOR.

In addition, a number of the Group's PFI joint ventures have entered into interest rate swaps.

Foreign currency risk

The Group operates primarily within the UK such that its exposure to currency risk is not considered to be significant.

Where foreign currency exposures are identified these are hedged using forward foreign exchange contracts.

Liquidity risk

The Group's policy on liquidity risk is to ensure that sufficient borrowing facilities are available to fund ongoing 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 core relationship banks in the form of unsecured committed borrowing facilities. The quantum of committed borrowing facilities available to the Group is reviewed regularly and is designed to exceed forecast peak gross debt levels.

Derivative financial instruments

At 30 June 2012	Current liabilities £m	Non-current liabilities £m	Total liabilities £m
Fuel price forward contracts	**0.3**	**0.3**	**0.6**

Fuel price forward contracts have been accounted for as derivatives held at fair value through the income statement. The fair value of these contracts has been determined based on a level 2 valuation method, using valuation techniques that include inputs that are based on observable market data.

In addition to the above, a number of the Group's PFI joint ventures have entered into interest rate derivatives as a means of hedging interest rate risk. Interest-bearing debts and associated interest rate derivatives within these joint ventures have a typical term of between 25 and 30 years and are without recourse to the Group. At 30 June 2012 the aggregate amount outstanding on these interest-bearing debts against which interest rate derivatives are held is £146.9m. The Group's share of the total net fair value liability of these interest rate derivatives at 30 June 2012, based on quoted prices in active markets, amounted to £21.0m which, together with the related deferred tax asset of £5.0m, have met the criteria for hedge accounting and as a result have been recognised directly in equity.

Financial assets – analysis by currency and maturity dates

At 30 June 2012 the Group had cash and short-term deposits denominated in the following currencies:

	2012 £m	2011 £m
Currency:		
Sterling	**135.0**	171.7
US dollar	**1.4**	1.3
Euro	**2.4**	1.1
Hong Kong dollar	**11.2**	14.6
UAE dirham	**8.8**	5.9
Other	**0.3**	0.5
Total	**159.1**	195.1

27 Financial instruments continued

Financial liabilities – analysis of maturity dates
At 30 June 2012 the Group had the following financial liabilities together with the maturity profile of their contractual cash flows:

	Trade payables £m	Deferred consideration on acquisitions £m	Borrowings £m	Finance lease obligations £m	Derivative financial instruments £m	Total £m
30 June 2012						
Carrying value	**550.4**	**58.7**	**30.3**	**8.6**	**0.6**	**648.6**
Contractual cash flows						
Less than one year	**541.5**	**33.0**	**30.3**	**1.5**	**0.3**	**606.6**
One to two years	**8.9**	**27.8**	**–**	**1.5**	**0.3**	**38.5**
Two to three years	**–**	**–**	**–**	**1.5**	**–**	**1.5**
Three to four years	**–**	**–**	**–**	**1.5**	**–**	**1.5**
Four to five years	**–**	**–**	**–**	**1.5**	**–**	**1.5**
Over five years	**–**	**–**	**–**	**2.1**	**–**	**2.1**
	550.4	**60.8**	**30.3**	**9.6**	**0.6**	**651.7**
30 June 2011						
Carrying value	525.9	60.2	30.3	–	–	616.4
Contractual cash flows						
Less than one year	518.8	2.4	–	–	–	521.2
One to two years	7.1	32.6	30.3	–	–	70.0
Two to three years	–	27.8	–	–	–	27.8
Three to four years	–	0.8	–	–	–	0.8
Four to five years	–	0.6	–	–	–	0.6
	525.9	64.2	30.3	–	–	620.4

There is no material difference between the carrying value and fair value of the Group's financial liabilities. The carrying value is calculated by discounting expected future cash flows.

The borrowings represent a £17.0m UK sterling loan and a £13.4m US dollar loan, net of £0.1m of capitalised finance costs, from the private placement of loan notes made in February 2003. The loans are repayable in one payment in February 2013. The UK sterling loan is at a fixed interest rate of 6.4% for the term of the loan. The Group has entered into interest payment and repayment swaps for the US dollar loan, which give an effective 6.4% fixed interest rate for the term of the loan.

Notes to the consolidated financial statements

continued

27 Financial instruments continued

Borrowing facilities
The Group has £120.0m (2011: £90.0m) of unsecured committed borrowing facilities due for renewal in September 2016.

These facilities are subject to certain covenants linked to the Group's financing structure, specifically regarding the ratios of debt to interest and profit, and consolidated tangible net worth. The Group has complied with these covenants throughout the period.

In addition the Group has £10.0m (2011: £10.0m) of unsecured overdraft facilities repayable on demand.

28 Financial and capital commitments

	2012 £m	2011 £m
Commitments for capital expenditure in subsidiaries	**4.9**	7.1
Commitments for equity and subordinate debt in PFI joint ventures	**–**	5.0
	4.9	12.1

Non-cancellable operating lease rentals are payable as follows:

	2012		2011	
	Property £m	**Plant and machinery £m**	Property £m	Plant and machinery £m
Within one year	**4.0**	**12.3**	3.9	10.0
Between one and five years	**10.6**	**21.4**	10.9	12.2
Over five years	**4.3**	**–**	5.7	–
	18.9	**33.7**	20.5	22.2

The Group leases properties and vehicles for operational purposes. Property leases vary considerably in length up to a maximum period of 99 years. Vehicle leases typically run for a period of four years. None of the leases includes contingent rentals.

29 Related parties

Identity of related parties
The Group has a related party relationship with its joint arrangements, joint ventures, key management personnel and pension schemes in which its employees participate.

Transactions with key management personnel
The Group's key management personnel are the executive and non-executive directors as identified in the directors' remuneration report on pages 64 to 71.

In addition to their salaries, the Group also provides non-cash benefits to directors and contributes to a post-employment defined benefit plan on their behalf.

Key management personnel also participate in the Group's share option programme (see note 25).

Key management personnel compensation comprised:

	2012 £m	2011 £m
Total emoluments as analysed in the directors' remuneration report	**3.2**	3.8
Employers' national insurance contributions	**0.4**	0.6
Total short-term employment benefits	**3.6**	4.4
Share-based payment charge	**2.0**	–
	5.6	4.4

In October 2010, Kier Homes Limited entered into a consultancy agreement with Princegate Estates PLC (Princegate), under which Princegate provided the Group with the services of Mr John Anderson to act as the managing director of the Group's private house-building business. The arrangements were terminated with effect from 30 June 2012. During the year payments of £445,000 became due for services provided by Princegate (2011: £262,000).

29 Related parties continued

The Group has entered into arrangements with Mission Recycling Worcester Limited (Mission) to sell recycled commodities through its subsidiary, Pure Recycling Warwick Limited (Pure). Mission is deemed a related party of the Group as it shares a common director with Pure. The Group generated revenue levels of £7.6m in the year (2011: £2.3m) on an arm's length basis through transactions with Mission. At 30 June 2012, £0.7m (2011: £0.8m) was owed to the Group by Mission, of which none was provided for (2011: £nil). No bad debts with respect to amounts owed by Mission were written off during the year (2011: £nil).

Transactions with pension schemes

The Group has made the following special cash contributions to the Kier Group Pension Scheme:

- In June 2011 £4.5m which was settled through the transfer of the Group's 50% interest in Sheffield Schools PFI project (Academy Services (Sheffield) Holdings Limited); and
- In December 2011 £3.1m which was settled through the transfer of the Group's 50% interest in Hinchingbrooke Hospital PFI project (Prospect Healthcare (Hinchingbrooke) Holdings Limited).

These amounts have been included as contributions received by the Scheme. Further details of these transactions and all other transactions between the Group and pension schemes in which its employees participate are detailed in note 8.

Transactions with joint arrangements and joint ventures

	2012 £m	2011 £m
Construction services and materials	**54.3**	75.9
Staff and associated costs	**0.8**	0.6
Management services	**1.1**	2.2
Interest on loans to joint ventures	**1.5**	2.4
	57.7	81.1

Amounts due from joint ventures are analysed below:

	2012 £m	2011 £m
ASK (Greenwich) Limited	**0.7**	0.8
Blue 3 (Gloucestershire Fire) Limited	**1.6**	–
Information Resources (Bournemouth) Limited	**0.7**	0.7
Information Resources (Oldham) Limited	**0.9**	0.9
Justice Support Services (Norfolk and Suffolk) Limited	**3.4**	–
Justice Support Services (North Kent) Limited	**1.7**	1.7
Kent PFI Company 1 Limited	**6.3**	7.8
Prospect Healthcare (Hinchingbrooke) Limited	**–**	1.2
Prospect Healthcare (Ipswich) Limited	**1.3**	1.4
Prospect Healthcare (Reading) Limited	**–**	1.7
Solum Regeneration LP	**–**	0.4
	16.6	16.6

Notes to the consolidated financial statements

continued

30 Acquisitions and disposals

a) Summary of consideration paid for acquisitions during the year net of bank balances, overdrafts and loans acquired

	2012 £m	2011 £m
Stewart Milne	**1.0**	–
Beco Limited	**0.2**	1.8
Kier Developments Limited	**–**	33.9
Construction and building services operations of North Tyneside Council	**1.0**	1.0
Pure Recycling	**2.3**	1.0
Total	**4.5**	37.7

External costs of £0.4m have been incurred and expensed during the year to 30 June 2012 on the acquisition of Biogen (UK) Limited in August 2012 (2011: £0.8m: Beco Limited £0.2m, Kier Developments Limited £0.6m).

Acquisition of Stewart Milne
On 27 April 2012 the Group, through its subsidiary Kier Construction Limited, acquired certain businesses and assets of the Aberdeen-based construction operations of Stewart Milne Group.

The consideration of £1.0m representing the fair value of the net assets acquired was paid wholly in cash in April 2012.

The fair value of the identifiable net assets acquired represents contract rights of £1.0m which have been classified as intangible assets.

Acquisition of investment in Beco Limited
On 22 November 2010 the Group, through its subsidiary Kier Limited, purchased the entire issued share capital of Beco Limited. The discounted consideration, payable wholly in cash, was £2.3m, representing the fair value of the net assets.

The consideration is payable as follows:

	£m
Total discounted consideration payable	2.3
Paid at 30 June 2011	(1.3)
Paid during the year to 30 June 2012	(0.2)
Unwinding of discount	0.1
Deferred at 30 June 2012	0.9

The deferred consideration is contingent on the results of the business acquired. It has been discounted to its present value.

Acquisition of investment in Kier Developments Limited
On 14 April 2011 the Group, through its subsidiary Kier Property Limited, acquired from Lloyds Banking Group its 50% interest in the jointly owned Kier Developments Limited incorporating a portfolio of real estate assets.

As a result of the transaction, Kier Property Limited now owns the entire issued share capital of Kier Developments Limited.

The total amount payable to Lloyds Banking Group for the purchase was £91.0m, which was discounted to its present value of £87.1m at 14 April 2011.

The consideration is payable as follows:

	£m
Total discounted consideration payable	87.1
Paid at 30 June 2011	(35.0)
Unwinding of discount	2.4
Deferred at 30 June 2012	54.5

The deferred consideration is a fixed payment due in two instalments of £30.0m in October 2012 and £26.0m in October 2013.

The cash outflow in respect of this acquisition during the year ended 30 June 2011 was £33.9m, being £35.0m paid to Lloyds Banking Group net of £1.1m of bank balances acquired.

30 Acquisitions and disposals continued

Acquisition of the business and assets of the construction and building services operation of North Tyneside Council
On 6 September 2009 the Group, through its subsidiary Kier North Tyneside Limited, acquired the business and assets of the building services operation of North Tyneside Council. The discounted consideration, payable wholly in cash, was £6.9m, representing the value of the net assets acquired.

The consideration is payable as follows:

	£m
Total discounted consideration payable	6.9
Paid at 30 June 2011	(4.4)
Paid during the year to 30 June 2012	(1.0)
Unwinding of discount	0.3
Deferred at 30 June 2012	1.8

The deferred consideration is a fixed payment due in instalments by March 2014. It has been discounted to its present value.

Acquisition of investment in Pure Recycling
On 14 May 2010 the Group, through its subsidiary Kier Services Limited, purchased the entire issued share capital of Pure Recycling Warwick Limited and Pure Buildings Limited. The discounted consideration, payable wholly in cash, was £6.4m, representing the fair value of the net assets acquired.

The consideration is payable as follows:

	£m
Total discounted consideration payable	6.4
Paid at 30 June 2011	(3.0)
Paid during the year to 30 June 2012	(2.3)
Unwinding of discount	0.4
Deferred at 30 June 2012	1.5

The deferred consideration is contingent on the completion of certain events and on the results of the business acquired and is due in instalments by October 2016. It has been discounted to its present value.

b) Disposal of investments in joint ventures
During the year the Group, through its subsidiary Kier Project Investment Limited, sold its investments in two PFI projects for combined consideration of £8.1m (Hinchingbrooke Hospital £3.1m and West Berkshire Hospital £5.0m).

West Berkshire Hospital was sold externally and the cash consideration was received in full. Hinchingbrooke Hospital was transferred to the Kier Group Pension Scheme. Further details of the transfer are provided in note 8.

During the prior year the Group, through its subsidiary Kier Project Investment Limited, sold its investment in three PFI projects, Sheffield Schools, Oldham Schools and Norwich Schools, for a combined cash consideration of £13.7m.

The disposal proceeds can be reconciled to the profits on disposal as follows:

	2012 £m	2011 £m
Sales proceeds	**8.1**	13.7
Book value of net assets and loans of joint ventures	**(1.1)**	(7.3)
Sale costs and loan interest receivable included in sales proceeds	**(0.3)**	(0.5)
Profit on disposal	**6.7**	5.9

Notes to the consolidated financial statements

continued

31 Subsequent events

Sale of Plant business
On 31 July 2012 and 1 August 2012, the Group through its subsidiary Kier Plant Limited, sold two portfolios of assets for a maximum aggregate consideration of £15.7m (Wernick Hire Limited (Wernick): £11.7m and Ashtead Plant Hire Company Limited (Ashtead): £4.0m).

The total impact of these disposals is a loss of £3.2m which has been recorded in the income statement for the year to June 2012 as an exceptional item.

The disposal proceeds can be reconciled to the loss as follows:

	£m
Maximum aggregate consideration	15.7
Less element of consideration attributable to future trading agreements with Wernick and Ashtead	(1.0)
Less provision for disposal costs	(1.7)
Fair value less provision for disposal costs	13.0
Carrying value of assets sold	(16.2)
Loss	(3.2)

The carrying value of the assets sold includes £15.9m originally held in property, plant and equipment and £0.3m originally held in inventories.

Acquisition of Biogen
On 2 August 2012, the Group through its subsidiary Kier Project Investment Limited entered into an agreement to invest £24.4m over a four-year period in Biogen (UK) Limited, establishing a 50/50 joint venture with the owner of Bedfordia Group plc.

The Group invested £5.4m in August 2012 on completion of the transaction.

Company balance sheet

At 30 June 2012 (registered company number 2708030)

	Notes	2012 £m	2011 £m
Fixed assets			
Investment in subsidiary undertakings	5	**90.3**	90.3
Current assets			
Debtors	6	**10.0**	6.2
Cash at bank and in hand		**125.3**	196.5
		135.3	202.7
Current liabilities			
Creditors – amounts falling due within one year	7	**(127.6)**	(173.5)
Net current assets		**7.7**	29.2
Total assets less current liabilities		**98.0**	119.5
Creditors – amounts falling due after more than one year	7	**–**	(30.3)
Net assets		**98.0**	89.2
Capital and reserves			
Share capital	8	**0.4**	0.4
Share premium	9	**55.0**	46.9
Merger relief reserve	9	**1.2**	1.2
Capital redemption reserve	9	**2.7**	2.7
Sharescheme reserve	9	**(2.1)**	(5.1)
Profit and loss account	9	**40.8**	43.1
Shareholders' funds	10	**98.0**	89.2

The financial statements were approved by the Board of directors on 12 September 2012 and were signed on its behalf by:

Paul Sheffield
Haydn Mursell
Directors

Notes to the Company financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material.

Basis of preparation
The financial statements have been prepared under the historical cost convention, on the going concern basis and in accordance with UK GAAP.

A cash flow statement has not been presented as permitted by FRS 1 (revised) 'Cash flow statements'.

Fixed asset investments
Investments in subsidiary undertakings are included in the balance sheet at cost less any provision for diminution in value.

Deferred taxation
In accordance with FRS 19 'Deferred tax', deferred taxation is provided fully and on a non-discounted basis at expected future corporation tax rates in respect of timing differences between profits computed for taxation and accounts purposes.

Own shares
The cost of the Company's investment in its own shares, which comprises shares held by the Kier Group 1999 Employee Benefit Trust for the purpose of funding the Company's share option plans, is shown as a reduction in shareholders' funds in retained earnings.

Share-based payments
The Company issues equity-settled share-based payments under the Sharesave and LTIP schemes. The fair value of these schemes at the date of grant is expressed on a straight-line basis over the vesting period, based on the estimate of shares that will eventually vest. Share-based payments are charged wholly to the ultimate parent company, which makes internal recharges to subsidiaries for these services as appropriate.

Financial instruments
The Company's principal financial assets and liabilities are cash at bank and borrowings. Cash at bank is carried in the balance sheet at nominal value. Borrowings are recognised initially at fair value and subsequently at amortised cost.

The consolidated financial statements include disclosures in note 27 under IFRS 7 which comply with FRS 29 'Financial Instruments and Disclosures'. Consequently, the Company has taken advantage of certain exemptions in FRS 29 from the requirement to present separate financial instrument disclosures for the Company.

2 Profit for the year

As permitted by section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year.

The auditor's remuneration for audit services to the Company was £4,445 (2011: £4,337). No other services were provided to the Company.

3 Information relating to directors and employees

Information relating to directors' emoluments, pension entitlements, share options and LTIP interests appears in the directors' remuneration report on pages 64 to 71. The Company has no employees other than the directors.

4 Dividends

Details of the dividends paid by the Company are included in note 10 to the consolidated financial statements.

5 Fixed assets – investments

	£m
Cost at 1 July 2011 and 30 June 2012	**105.3**
Provision for diminution in value	
At 1 July 2011	(15.0)
Movement during the year	–
At 30 June 2012	**(15.0)**
Net book value at	
30 June 2012	**90.3**
30 June 2011	90.3

6 Debtors

	2012 £m	2011 £m
Amounts falling due within one year:		
Amounts due from subsidiary undertaking	**2.4**	–
Other debtors	**7.2**	5.6
Corporation tax	**0.4**	0.6
	10.0	6.2

7 Creditors

	2012 £m	2011 £m
Amounts falling due within one year:		
Bank overdrafts and loans	**71.9**	149.0
Borrowings	**30.3**	–
Amounts due to subsidiary undertakings	**20.2**	19.0
Other creditors	**5.2**	5.5
	127.6	173.5
Amounts falling due after one year:		
Borrowings	**–**	30.3

The borrowings represent a ten-year private placement of loan notes made in February 2003 repayable in February 2013. They are unsecured and fixed at an interest rate of 6.4% per annum for ten years.

8 Share capital

Details of the share capital of the Company are included in note 24 to the consolidated financial statements.

9 Reserves

The movement in reserves is as follows:

	Share premium £m	Merger relief reserve £m	Capital redemption reserve £m	Sharescheme reserve £m	Profit & loss £m
At 30 June 2010	38.8	1.2	2.7	(8.5)	26.2
Issue of shares	8.1	–	–	–	–
Movement in provision for share-based payments	–	–	–	2.7	–
Transfer of provision for share-based payments on expired schemes	–	–	–	0.7	(0.7)
Profit for the year	–	–	–	–	39.7
Dividends paid	–	–	–	–	(22.1)
At 30 June 2011	46.9	1.2	2.7	(5.1)	43.1
Issue of shares	8.1	–	–	–	–
Movement in provision for share-based payments	–	–	–	2.8	–
Transfer of provision for share-based payments on expired schemes	–	–	–	0.2	(0.2)
Profit for the year	–	–	–	–	22.7
Dividends paid	–	–	–	–	(24.8)
At 30 June 2012	**55.0**	**1.2**	**2.7**	**(2.1)**	**40.8**

The balance on the sharescheme reserve comprises the investment in own shares of £10.0m (2011: £9.2m) and a credit balance on the sharescheme reserve of £7.9m (2011: reserve of £4.1m).

Details of the shares held by the Kier Group 1999 Employee Benefit Trust and of the share-based payment schemes are included in note 25 to the consolidated financial statements.

10 Reconciliation of movement in shareholders' funds

	2012 £m	2011 £m
Opening shareholders' funds	**89.2**	60.8
Profit for the year	**22.7**	39.7
Dividends paid	**(24.8)**	(22.1)
Issue of shares	**8.1**	8.1
Movement in provision for share-based payments	**2.8**	2.7
Closing shareholders' funds	**98.0**	89.2

Principal operating subsidiaries and business units

Construction

Kier Construction Limited

Building
- Major Projects
- Central
- Central South
- Eastern
- London
- Northern
- Scotland
- Southern
- Western & Wales
- Strategic Frameworks and Alliances

Specialist businesses
- Engineering
- Process & Engineering
- Interiors & Refurbishment (I&R)

Kier Infrastructure and Overseas Limited

Services

Kier Services Limited

Maintenance
- Kier Harlow Limited
- Kier Islington Limited
- Kier North Tyneside Limited
- Kier Sheffield LLP
- Kier Stoke Limited

Facilities Management
- Kier Facilities Services Limited

Environmental
- Pure Buildings Limited
- Pure Recycling Warwick Limited

Asset Management
- Kier Asset Partnership Services Limited

Energy Solutions
- Kier Energy Solutions Limited

Insurance Management
- Kier Insurance Management Services Limited

Plant and Fleet Management
- Kier Plant Limited

Property

Kier Property Limited

Kier Developments Limited
Kier Ventures Limited

Kier Project Investment Limited

Kier Homes Limited
Kier Partnership Homes Limited

Group Services

Kier Limited

Notes:

i) Each company is registered in England and Wales and operates principally within the United Kingdom. Kier Infrastructure and Overseas Limited also operates in Hong Kong, the Middle East and the Caribbean.

ii) The Group has entered into partnership agreements with Harlow Council, North Tyneside Council, Sheffield City Council and Stoke-on-Trent City Council whereby the respective councils have a participating ownership interest and receive a minority share of the profits of Kier Harlow Limited, Kier North Tyneside Limited, Kier Sheffield LLP and Kier Stoke Limited.

iii) The ordinary share capital of all other companies is wholly owned. Kier Group plc holds directly all the shares of Kier Limited and Kier Homes Limited. The shares of the other companies are held by subsidiary undertakings.

iv) A full list of all the subsidiaries of Kier Group plc is available from the registered office of the Company.

Principal joint arrangements and joint ventures

Joint arrangements

Construction

The following joint arrangements, in which the Group participation is between 30% and 50%, operate in the United Kingdom:

KMI Plus	a joint arrangement between Kier Construction, J Murphy & Sons Limited, Interserve Project Services Limited and Mouchel Limited
KMI	a joint arrangement between Kier Construction, J Murphy & Sons Limited and Interserve Project Services Limited
Crossrail Contracts 300/410/435	a joint arrangement between Kier Construction, BAM Nuttall Limited and Ferrovial Agroman (UK) Limited
Crossrail Contracts 501/511	a joint arrangement between Kier Construction and BAM Nuttall Limited
Hinkley Point C	a joint arrangement between Kier Construction and BAM Nuttall Limited

The following joint arrangements, in which the Group participation is between 30% and 50%, operate overseas in the territory indicated:

Hong Kong

MTRC Contract 824	a joint arrangement between Kier Construction, Kaden Construction Limited and Obras Subterráneas S.A.
MTRC Contract 901	a joint arrangement between Kier Construction, Laing O'Rourke Hong Kong Limited and Kaden Construction Limited

Joint ventures

	Interest held
Construction	
Incorporated and operating in the Kingdom of Saudi Arabia:	
Saudi Comedat Co.	25%
Long-term concession holding under the Private Finance Initiative	
ASK (Holdings) Limited	50%
Blue 3 (Gloucestershire Fire) (Holdings) Limited	70%
Information Resources (Holdings) Limited	50%
Information Resources (Oldham) Holdings Limited	50%
Justice Support Services (Norfolk and Suffolk) Holdings Limited	42.5%
Justice Support Services (North Kent) Holdings Limited	42.5%
Kent LEP1 Limited	64%
Kent PFI Holdings Company 1 Limited	78%
Prospect Healthcare (Ipswich) Holdings Limited	50%
Commercial property development	
Solum Regeneration LP	50%

Notes:

i) Joint arrangements are contracted agreements to cooperate on a specific project which is an extension of the Group's existing business. Joint ventures are ongoing businesses carrying on their own trade.

ii) Except where otherwise stated the companies are incorporated and operate in the United Kingdom.

iii) Interests in the above joint ventures are held by subsidiary undertakings.

iv) The joint ventures where the Group has an interest in excess of 50% are still considered joint ventures as the Group still has joint control.

Financial record

Year ended 30 June	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Revenue: Group and share of joint ventures	**2,069.2**	2,178.8	2,098.7	2,145.6	2,374.2
Group operating profit	**63.0**	59.7	57.8	50.1	82.9
Joint ventures – share of operating profit	**1.3**	2.1	(0.1)	1.0	4.4
Profit on disposal of joint ventures	**6.7**	5.9	4.2	–	16.2
Total finance cost net	**(4.2)**	(1.9)	(2.3)	(0.2)	0.9
Joint venture tax	**(0.2)**	(0.3)	0.1	(0.3)	(1.1)
Profit before tax before exceptional items	**66.6**	65.5	59.7	50.6	103.3
Exceptional items	**(3.6)**	7.0	(2.0)	(25.8)	(39.9)
Profit before tax	**63.0**	72.5	57.7	24.8	63.4
Taxation	**(7.7)**	(10.2)	(17.2)	(7.9)	(15.2)
Profit for the year	**55.3**	62.3	40.5	16.9	48.2
Earnings per share					
– undiluted	**142.6p**	166.1p	108.2p	44.1p	130.7p
Dividend per share	**66.0p**	64.0p	58.0p	55.0p	55.0p
At 30 June					
Shareholders’ funds	**£154.2m**	£164.2m	£104.2m	£89.3m	£183.1m
Net assets per share	**397.2p**	430.3p	278.0p	239.9p	494.6p

The figures for 2009 were restated in 2010 in respect of the adoption of IFRIC 12 ‘Service concession agreements’. The figures for 2008 above have not been restated for IFRIC 12 as it is not practical to do so.

Corporate information

Directors
P M White CBE FCA Chairman
M P Sheffield BSc CEng FICE Chief Executive
S Bowcott BSc
I M Lawson FCIOB
H J Mursell BA ACA
R C Bailey BA ACA
C V Geoghegan BA FRAeS
A J Mellor BSc (appointed 1 December 2011)
N P Winser CEng FIET FIGEM
H E E Raven BA Secretary

Headquarters and Registered Office
Kier Group plc
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Sandy
Bedfordshire
SG19 2BD
Telephone: 01767 640111
www.kier.co.uk

Registered Number
England 2708030

Financial calendar

15 November 2012
Annual general meeting

28 November 2012
Payment of final dividend for 2011/12

February 2013
Announcement of half-year results
and interim dividend for 2012/13

May 2013
Payment of interim dividend

September 2013
Announcement of preliminary full-year results
and final dividend for 2012/13

Auditor
KPMG Audit Plc
15 Canada Square
Canary Wharf
London
E14 5GL

Bankers
Royal Bank of Scotland PLC
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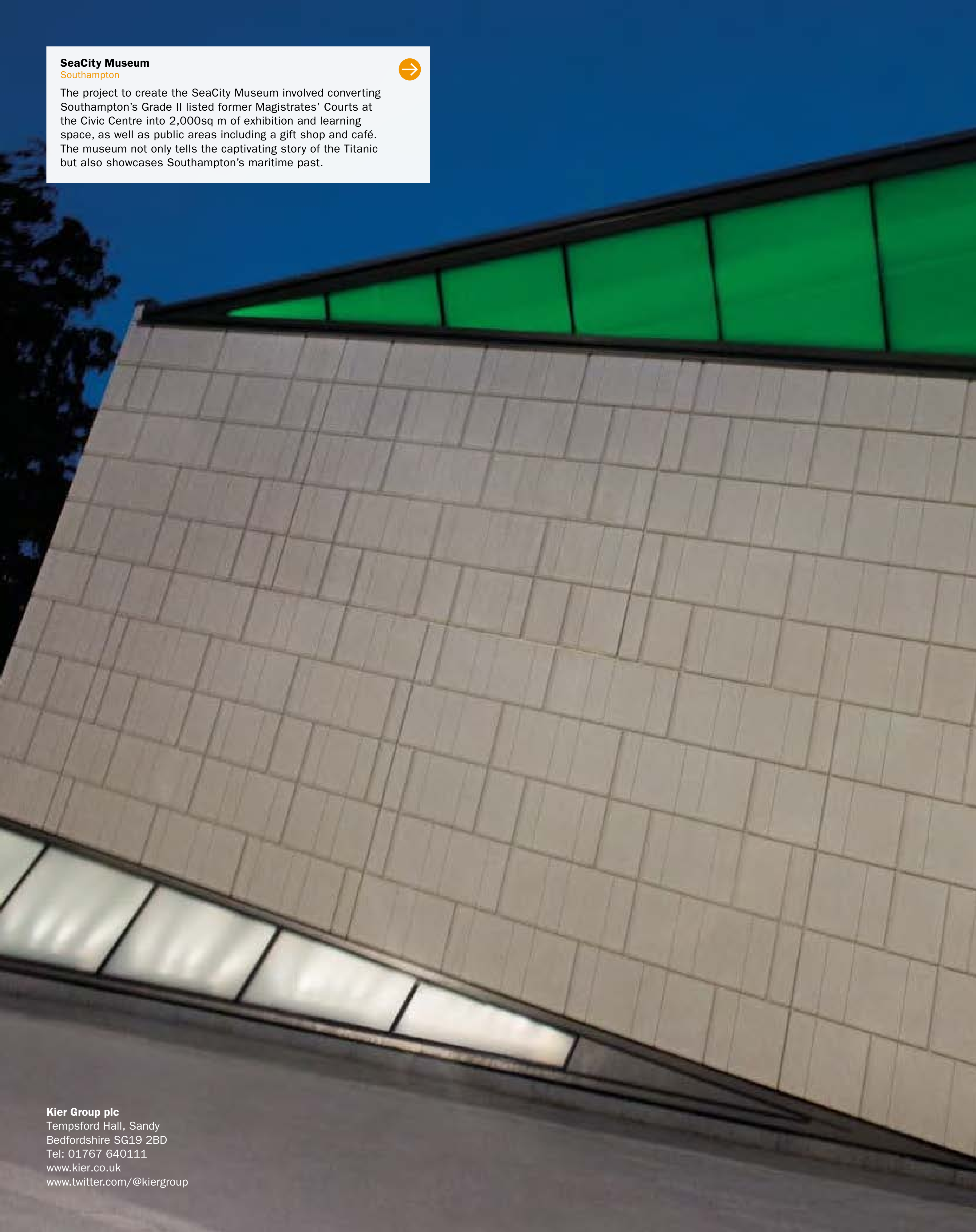
Designed and produced by JohnstonWorks johnstonworks.com



SeaCity Museum
Southampton

The project to create the SeaCity Museum involved converting Southampton's Grade II listed former Magistrates' Courts at the Civic Centre into 2,000sq m of exhibition and learning space, as well as public areas including a gift shop and café. The museum not only tells the captivating story of the Titanic but also showcases Southampton's maritime past.

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